The determining trends of the retail payment market

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Abstract

The retail payment market can be seen as a high velocity market, where the rate of change is high. The future for the retail payment market is uncertain to a large extent. A relatively new phenomenon is the entrance of third party payment providers (hereafter; TPP) who are utilizing the incumbent banks account infrastructure in order access information or initiate payments. A legislation named PSD2 will increase the TPP’s possibilities to utilize the bank’s infrastructure. This makes it possible for TPP to offer new innovative solutions to the end customer.

The incumbent actors on the retail payment market have not been successful in regards to innovation, which have given fintech companies room to grow, both in size and numbers. However, the incumbent actors do still possess a strong position, but are frequently challenged by new startups who also want to initiate payments. Historically, the entrance barrier to the retail payment market have been high and the incumbent actors have had an oligopoly position. It has resulted in a lack of competition and a low innovation rate. However, this is starting to change because of new initiatives from EU, where the aim is to increase competition and facilitate a well-functioning retail payment market. Therefore, the increased competition from fintech startups is a relatively new phenomenon and most actors in the retail payment market think it is a beneficial evolution, except few representatives from the incumbent players who are worried that their existing competitive advantages will be outdated.

This study provides a picture of how the retail payment market can develop in the future. By determining the most critical trends, it becomes clear what is driving the retail payment market and how the dynamic between actors is changing. In order to get the necessary insights to fulfil the purpose, 18 interviews have been conducted with different stakeholders to the retail payment market. The variation of perspectives of the interviewees give this study a depth that in the end enhance the validity of the result.

It is hard to predict the future in a market characterized by high velocity, hence, it is important to understand what trends have the strongest influence on the market. By analysing the interviews, six trends were identified as having a huge impact on the payment market. 1. Merchants are pushing EU to regulate to their favour 2. Access to the information created when conducting payments 3. Incumbent banks have a hard time adopting to new changes 4. New technical solutions enable more actors to create payment solutions with global coverage 5. Actors without payment
as core business enter the market. New regulations, such as PSD2, aims to increase competition on the retail payment market.

Two of these six trends have been identified to be particularly uncertain and having a huge impact on the development of the retail payment market. Furthermore, these two trends are characterised by a dichotomy and the development of them will influence the market in four distinctively different ways. The first dichotomy is whether it becomes easy to be compliant with new legislations, or not. The study shows that if it becomes a heavy burden being compliant with PSD2 and using the technical standard for XS2A, the market will be characterized by economies of scale. If it on the other hand becomes is easy being compliant with PSD2 and initiate payments through XS2A, the overhead costs will decrease and the benefits of scale shrink. The second dichotomy, is whether actors without payment as core business will enter the market, or not. If payments can be seamlessly integrated in other applications, for instance a shopping experience, it is likely that payments will be initiated by actors who does not have payment initiations as core business. However, if it becomes hard to initiate payments on the banks account infrastructure, the attractiveness of having payments as a value adding service fades.

**Key-words:** Retail payment market, PSD, PSD2, PSD3, Third party payment service provider, market dynamics, economies of scale
This master thesis was conducted from January 2016 to May 2016, it is the examination project for the master program in industrial management at the Royal Institute of Technology. This thesis has been written in collaboration with Tieto Financial Services, who have an interest in understanding what the future of the payment market may look like. The journey has been exiting and given us as authors of this report a lot of new knowledge and valuable connections.

During the work with this thesis, the payment market has been a hot topic in Swedish business press. For example, we have seen banks launching collaborations with startups, banks who have started their own startup-like divisions and numerous speculations whether banks will survive or not. Every journalist who touches the subject has their idea of what this market might look like in the future, we can for certain say that we do not know, however, this is our scientific contribution to the discussion about the future of the retail payment market. It is our hope that this thesis will illuminate the trends in this market further and you as a reader will find our findings valuable.

It would not have been possible to write a report like this without help, therefore, we would like to take the opportunity to show our gratitude to those who gave support to us. Firstly, Mia Söderlund for giving us the brilliant idea of writing about payments and continuous support through out the project. Secondly, Magnus Lageson for valuable feedback on our project and help to find the right interviewees. Thirdly, our supervisor, Niklas Arvidsson, at KTH who have supervised us and continuously pushed us into the right path.

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1. Introduction

In this chapter the background to the research is presented, as well as the following problem formulation, purpose and research question. The chapter ends with research contribution and delimitations.

1.1 Background

The digital revolution has affected how we today are doing our payments. Cash is becoming more and more irrelevant and a few analysts speculate about a cash free society in the near future (Arvidsson, 2013). Today, debit and credit cards are the most common method for mass payments (European Commission, 2012).

Even though it exists technical solutions that are safer and better than the plastic card, the change has not happened yet. A payment method has to be trusted before people start using it, which have resulted in a lag between the launch of new payment solutions and consumer’s adoption to the new possibility to pay (Arvidsson, 2013). Nevertheless, the change towards new solutions on how we pay is happening.

Today, banks together with Visa and MasterCard have a dominant position in the market. According to a study conducted by Insight Intelligence (2014) 63 percent of all purchases in Sweden are paid by card. Lately, competition from startups has emerged by offering new payment services (e.g. Klarna and Trustly etc.). The historical oligopoly position of the banks is challenged when new regulations such as PSD2 and IFR are implemented. Hence, the new competitive landscape put more pressure on banks innovation capabilities and their historically high profits on payment services.

As an indication of the emerging competition, almost a third of all unicorns (startups with a valuation that exceeds $ 1 billion) in the fintech sector are in the payment industry (Finovate, 2015). The trend in the payment market is towards digital payments and the payment market is in no doubt emerging. McKinsey (2015) estimates the payment market to grow annually by 6 % until 2020. Furthermore, revenue from payments are about 40 % of banks total revenue (McKinsey, 2015). Visa and MasterCard have almost a profit margin of 50 percent which is high compared to other industries (Ycharts, 2016). Nevertheless, the historical high profits in the payment industry is haunted by the European Commission that regulates the payment market further. For example, the European Commission identified payments as one of the main barriers for the growth of e-commerce (European Commission, 2012).

The directive on payment services, PSD, were proposed in 2007 and adopted in 2009. The aim of PSD was to create a market for payments, eliminate the barriers for new entrants, create a platform for payments, and to protect consumers using payment services. (Payment Services Institution, 2015)
The revised directive on payment services (hereafter PSD2) was adopted by the European Parliament 8th of October 2015. The legislation’s aim is to facilitate free trade within the European Union, therefore, a free payment market with higher competition and more costumer safety is necessary. In PSD2 there is a regulation that gives third party payment service providers (hereafter TPP) access to bank accounts (referred to as XS2A - Access to Account). XS2A comes with two implications. Firstly, a third party can access information from an user’s account. Secondly, a TPP can initiate a transaction in an account held by another financial service provider. However, if a TPP wants information or to initiate a payment it has to be approved by the account owner (European Parliament, 2015).

To stimulate the competitiveness in the payment market further, PSD2 prevents banks from handling transactions made by a TPPs differently than their own transactions (European Parliament, 2015).

In addition to the trends due to PSD2 and digitalization, there are also challenges for the bank owned infrastructure. Firstly, the system is old and it appears obsolete compared to other digitalized systems. Secondly, the block chain technology is seen as a disruptive technique since it allows new function that the old system do not have. As a response the Swedish clearinghouse has created a clearing service which can liquidate payments in real time, BiR (betalningar i realtid). It has more potential than the old clearing system. However, BiR has only been used for the Swish application, but may in the future support other applications as well. Hence, there are a few potential candidates to the existing infrastructure and those who incorporate the new infrastructure can offer new services to customers that the old infrastructure can not handle. Hence, the potential in the offerings on the market will in some degree be determined by the development of infrastructure.

1.2 Problem formulation
The PSD2 legislation will allow TPPs to connect to customer bank accounts. As mentioned in the background section, this regulation will affect account information services (hereafter AIS) and payment initiation services (hereafter PIS). Hence, these changes might decrease the barrier for new entrances to the payment market since XS2A allow even smaller players to initiate payments. With more potential players in the market, the competitiveness will increase and the pace of innovation is expected to increase (Accenture, 2012).

The entrance barrier for the payment market can decrease due to PSD2 and the aim of the new legislation is to create a well functioning market and break the oligopoly possessed by the banks. The necessary financial infrastructures for conducting a payment is owned by the big banks, which have meant that they have had a lot of power in the value chain of payments. Now, banks have to let new players use their infrastructures and their historical power of dictate the conditions on retail payment market is decreasing. Clearly, a change is happening and the historical competitive advantages in the payment market might not remain the same in the future.
1.3 Purpose
This study provides a clear picture of how the retail payment market may develop in the future. By determine the most critical trends, it should be clear what is driving the retail payment market and how the dynamic between actors is changing. By this study, any player in the retail payment market should be able to take aid from this report when making strategic decisions for their firm.

1.4 Research Questions
The first research question answer how the retail payment market may look like in the future. Since the incumbent banks and Visa and MasterCard are the main actors today, how they are affected by the development of the retail payment market will determine how the dynamics of the market will change as well.

RQ1 How can the dynamics among actors in the retail payment market develop in the future?

In order to answer RQ1 the most critical trends of the market need to be determined. By identifying how these trends may develop it is possible to determine how different actor will be affected, which is the key to understand the dynamic of the future payment market.

RQ1.1 What are the most critical trends in the retail payment market?

1.5 Contribution
The industry this study is investigating is facing a big change in the near future, which derives from new legislations (especially PSD2 commissioned by the European Commission) and technical trends. The big banks position is challenged by new actors due to this new regulation, which is forcing the traditional banks to rethink their business models. Because the largest actors, in this case the incumbent banks are facing a potential radical change, the dynamic of the market may transform. This study will help to distinguish potential outcomes from these changes and hence help actors within the industry to understand how they may be affected.

Since PSD2 is a new legislation, previous research on this area is very narrow. Therefore, this research will contribute with great value in terms of explaining how the future of the Swedish retail payment market may develop.

1.6 Delimitations
This study is focusing on the Swedish retail payment market, therefore is it not including markets outside this region. The retail payment market includes balk payments for mostly low-value transactions to and from individuals, companies and public authorities (ECB, 2016). Furthermore, because the PSD2 legislation aims to enable a third party to initiate payments through bank infrastructure, this study is focusing on the initiation part.

The estimated implementation date of the PSD2 legislation, which is January 2018, is used as a reference point to the time horizon of this thesis. Additionally, two years is added to the time horizon to ensure that
the effect of the changes can be seen throughout the whole market. Even though the characteristics of the retail payment market may continue to change as a reaction to the PSD2 legislation after 2020, the result of this study will give an indication to how the market may develop in the future.

Block chain is seen by many as something that might change the future of how we are conducting payments. However, since there is so much uncertainty and non of the interviewees could give a proper prediction of the implication of block chain, this study disregards from the impact block chain might have on the retail payment market.
2 Literature review

This chapter presents the literature that are relevant to understand how competitive advantages are built, how networks are created, what defines a dynamic capability, and how a specialisation strategy affects a business. This chapter also presents a summary of existing knowledge and research on the retail payment market.

2.1 Competitive advantage

The most fundamental description of competitive advantage is basically an advantage which a firm has over its competitors that allows them to generate greater sales, margins or obtain more customers (Porter, 1985). However, when diving deeper, this definition becomes vaguer and the field of researchers has a more diverse view on competitive advantages role in a company's strategy. Hofer and Schendel (1978) describe competitive advantage as "the unique position an organization develops vis-a-vis its competitors through its patterns of resource deployments". They suggest that a competitive advantage can be derived from competencies and be deployed within a firm’s strategy. However, Reed and DeFillippi (1990) underlines that competencies does not necessarily have to generate a competitive advantage. Equally, a competitive advantage does not necessarily have to emanate from competencies.

Firms have traditionally based their competitive advantages around financial, strategic and technical aspects. However, Ulrich D and Lake D’s (1991) suggest in their research that a fourth aspect should be taken into consideration. The fourth is about organizational capabilities, which they believe should be ranked as high as the previous three and be integrated alongside the development of these. To establish organizational capabilities, firms have to be able to adapt to changes in customer demands and changes in their strategic needs by implementing internal processes that can influence the employees to develop organizational-specific competencies. Hence, the fourth competitive advantage about managing people to create new internal competencies. (Ulrich & Lake, 1991)

Sustainable competitive advantage

Obtaining a competitive advantage is a favourable accomplishment in order for a firm to profit, however, having a sustainability perspective is also important in order for the advantage to survive over time. Barney (1991) concludes a list of four essential prerequisites for a skill/ resource to be a source for sustainable competitive advantage.
• It must be valuable;
• It must be rare among a firm’s current and potential competitors;
• It must be imperfectly imitable; and
• There must not be any strategically equivalent substitutes for this skill/resource. (Barney, 1991)

For a firm’s skill or resource to be considered valuable it has to aid the firm in creating strategies that improves its efficiency and/or effectiveness. However, if these skills or resources are possessed by a large number of firms, or the possibility for other competitors to easily obtain them, they cannot be considered as sustainable competitive advantages (it has to be imperfectly imitable). Additionally, for a resource or skill to be considered as sustainable it has to be non-substitutable. This aspect takes on two different forms; firstly, competitors cannot obtain the same advantage through a similar skill/resource, secondly, the benefit from the skill/resource have to be reflected in one or more product or delivery attributes that are key buying criteria. Furthermore, if the key buying criteria changes over time the sustainability of a firm’s competitive advantage depends on its ability to adapt or influence this key buying criteria. (Sundar et. al, 1993)

Richard Reed and Robert J. DeFillippi (1990) discusses sustainable competitive advantage around the aspect of ambiguity. They use causal ambiguity to describe the phenomenon around business actions and outcomes that makes it difficult for competitors to mimic a strategy. Furthermore, they discuss the concept of ambiguity as a result of three characteristics that individually or in combination creates causal ambiguity. These characteristics are tacitness, complexity and specificity. Tacitness is implicit and non-codifiable accumulations of skills from learning by doing. Complexity is the result from having a large number of interdependent skills and assets. Specificity refers to the transaction specific skills and assets used in the production or provision of services to particular customers. (R. Reed & R.J. DeFillippi, 1990). Furthermore, barriers that ones upon the time were high, will without maintenance start to decay and leave the firm vulnerable. Sunder et. al (1993) underlines the importance of continuous reinvestments in skills and resources that are creating competitive advantages in order for them to sustain over time.

2.2 Dynamic capabilities
Another theory devoted to sustainable competitive advantage is the resource based model. Margaret A. Peteraf (1993) describes a resource based model as a differentiation model for companies to use in order to priorities resources. It can help to differentiate resources that are supporting the firm’s competitive advantages from other less valuable resources. Hence, this model is primarily concerned with the internal accumulation of assets and asset specificity. This aligns with Reed and DeFillippi’s theories around causal ambiguity, where they state that specificity is one of the core characteristics of a firm’s competitive advantage in order for it to be sustainable.
Furthermore, the resource based model can be seen as a dynamic capability. Dynamic capabilities are the organizational and strategic routines in which managers alter existing resources in ways to restructure, integrate them together and recombine them in order to create new value creating strategies (Eisenhardt & Martin, 2000; Kogut & Zander, 1992; Teece et. al, 1997). Dynamic capabilities can be embodied in many different ways, which Eisenhardt and Martin (2000) gives a few examples of. They can be product development routines by which managers combine their varied skills and experience to create revenue producing products and services. Strategic decision making is another example where managers incorporate their various business, functional and personal expertise to make the choices that influence the major strategic moves of the firm.

Eisenhardt and Martin (2000) present the characteristics of dynamic capabilities in high velocity markets (a market with high rate of change). In contrast to stable markets where dynamic capabilities are relatively complex and analytical, high velocity markets use simpler, experiential and more iterative processes. Due to the nature of rapidly changing markets, where the future is hard to foresee, businesses rely on the creation of situation-specific knowledge in the context of simple boundaries and priority-setting rules. This allows managers to make quick decisions to seize opportunities, but still have some guidance to help them decide on the right direction which will create the most value for the company. However, Argote (1999) explains that the fact that these routines are simple and lack clear structure they become easily forgotten. The tendency to forget is further aggravated by the rapid turnover and growth characterized by firms in high velocity markets. In order for these dynamic capabilities to sustain they are in need of constant maintenance to remain active. These dynamic capabilities are often on the brink to slip into either too much or too little structure, which is a constant struggle for managers to find their firm’s optimal amount of structure. Since these dynamic capabilities are somewhat unstable they become hard to sustain in high velocity market. Contrary to moderately dynamic markets where the threat to competitive advantage comes from outside the firm, high velocity markets face not only threats from outside but also from inside the firm through the collapse of dynamic capabilities.

2.3 Networks
In contrast to the neo-classical economic theory with maximize utility theory, research on business networks emerged. Business networks are theories for understanding the horizontal relationship of competitors. This field has not been investigated to the same extent as vertical relationships (Bengtsson & Kock, 1999). The view of the dynamic in horizontal business relationship differ a lot between different researchers. Håkansson and Ford (2002) emphasize the dependencies on other actors in the network, and whether a company think it operates isolated from others, they do not. Horizontal relationships are more invisible and harder to analyse since their character is more informal than vertical relationships which usually includes a transaction of money or goods (Easton and Araujo, 1992). Nevertheless, a thorough case study on horizontal networks is conducted by Bengtsson & Kock (1999), where they investigate business networks within the lining industry. Their study shows that relationships evolve over time and
that their characteristics are dynamic. Bengtsson and Kock (1999) explores the evolvement of two companies in the lining industry turning from a coopetitive relationship to cooperation after one of the companies acquired the other company. Moreover, it is common that a company simultaneously is involved in several relationships at the same time. How the networks with competitors are arranged defines what competitive advantages a company can obtain. Evaluating the position and competences compared to competitors, decides what type of relationship one should possess in order to be successful. For example, if one possesses a strong position and does not need competences possessed by competitors, initiation of a competitive relationship might be beneficial. On the other hand, a company lacking some competences might reach more success from initiating a cooperative relationship with some competitors. A company should determine goals based on what relationships that are the most beneficial. (Bengtsson & Kock, 1999)

Bengtsson and Kock (1999) defines four different types of relationships, their classification is almost the same as Easton and Araujo (1992) but without their last category, collusion. Bengtsson and Knock (1999) argues that collusion should be in the group of competition.

The four categories used by Bengtsson and Knock (1999):

**Coexistence** - The companies know about each other, but does not exchange information or profit. A dependence situation is usually present, where one actor is dependent on another actor in the relationship. However, the interaction is low but the informal norms are strong.

**Cooperation** - The cooperative relationship incorporates a frequent exchange; the exchange can consist of anything. For example, social, knowledge, legal and economic are the most common cooperative areas. Nevertheless, companies with a cooperative relationship are still competing but can be be bound by legal agreements to some extent. In contrast to the other relationships, companies in this category has common goals.

**Competition** - There is a zero-sum game between the parties in this relationship because they compete over the same customers. Hence, the interaction in this relationship is simple and reactive. If one party is launching a new product the other party is also likely to react on that information.

**Co-opetition** - This relationship is a mix between cooperation and competition. Whether to collaborate or compete is determined by legal contracts. Moore (1996) draws a parallel to biology and says that this relation is a form of evolutionary co-evolvement.

Research conducted by Håkansson and Ford (2002) present three paradoxes with business relationships and what the implications they have on a managerial level. The first paradox in business relationships is due to the fact that a company involved in a business network cannot act on their own, since all changes affect the others in the network and therefore have to be accepted by the other participants. On the one hand, business networks give the participants a competitive advantage where they can benefit from each
other. On the other hand, when companies cannot act on their own they become inflexible and may face a hard time to emulate with new entrances who are independent of others. This is also supported by Segendorf and Wretman (2015) who sees that collaboration of standards creates lock-in effects in the retail payment market and change processes becomes slow. The second business network paradox is that a company can influence the network simultaneous as the company can be influenced by the network. One can argue that the network exists because of the companies within it, contrary, one can argue that companies exist to support the network. Nevertheless, this is not necessary to determine, hence, both the companies and the network are important and they influence each other. The third paradox is the more a company tries to control the network and is succeeding, the less innovative and effective will the network be. Most companies strive to be as strong as possible relative to others, but if they control the other parts in the network in a large extent only their processes and knowledge will circulate within the network, hence the others will not contribute. (Håkansson & Ford, 2002)

Håkansson and Ford (2002) emphasize that business research cannot tell what decision a firm should make, only explain the dynamics in businesses in order to create an understanding. Further, if a company wants to change their position in a business network it is a major strategic activity and can only be done with a long term perspective. Hence, managing business networks is a long term strategic work. (Håkansson & Ford, 2002)

2.4 Network effects
The retail payment market is characterised by network effects, since the infrastructure is expensive to develop and maintain, but the additional cost for a payment is negligible (Segendorf and Wretman, 2015).

Katz and Shapiro (1993) explains that most products have little or no value in isolation, but generate value when it is combined with other products and services in different ways. Simply described does network effect emerge when the effect of one user of a product impact the value of the product for other users as well (Katz & Shapiro, 1993; Sheremata, 2004; Liebowitz & Margolis, 1994). Katz and Shapiro’s research show that there are mainly three important issues when it comes to network effects; expectation, coordination and to achieve capability. These are the issues that will be covered in this section. In order to simplify the relationships in network effect and thus create understanding the discussion will be around the relationship between hardware and software due to the clear relationships between them.

Expectation
In order for a consumer to make a rational decision when choosing a new hardware, say for example a computer, the buyer must form an expectation of future costs and benefits from the different alternatives. In many cases, purchases of components to a product are spread out over time, which makes future availability, price and quality of the components needed important to take into consideration. Take the decision for a manager to invest in Apple computers for his/ her company as an example. When choosing to purchase Apple’s hardware, the manager also locks him/-/ herself into the network of software and
components that are compatible with that specific brand of hardware. Hence, the firm’s future purchases of additional products and services to these computers becomes limited to that specific network. It is therefore essential for a manager to create a rational expectation of future availability of relevant software and components his or her firm may be in need of. If the decision is poor the firm risk high switching costs to another network where their needs can be fulfilled. (Katz & Shapiro, 1993)

In situations like this, systems that are expected to be popular and therefore have a wide range of available components will become popular of that very reason. Katz and Shapiro states that the resulting positive feedback effect means that equilibrium may not exist or multiple equilibrium may exist. (Katz & Shapiro, 1993)

*Coordination*

Markets that are heavily influenced by network effects creates coordination challenges both for companies and consumers. Katz and Shapiro presents an example where a firm is contemplating to release a new architecture of microprocessors. One important aspect they have to take into consideration is whether software will be developed that works with their product or not. If not enough software developers take an interest in their product and expect it to succeed there will not be any incentive for consumers to buy their new microprocessors. Hence is coordination highly important for firms like this in order to ensure their attractiveness on the market. Coordinated investments can be one solution where the microprocessor firm collaborates with different software developers to ensure that attractive software will be available for their product on the market. (Katz & Shapiro, 1993)

*Achieve compatibility*

Another important issue is how to achieve compatibility. It is not sure that a component design that works in one system also work in another system. Research show that the desire to create wide range compatibility differs among companies depending on the characteristics of their position in the market, type of product or service and where they are in the value chain. (Katz & Shapiro, 1993)

An area where compatibility is typically desirable is in markets characterized by economies of scale. When compatibility between different systems is high consumers can enjoy the benefit of mix and match between products and services. However, companies can also benefit from compatibility in different ways. One example could be to manage risk, where designing a product to fit more than one system the firm differentiates their investment in order to decrease their risk taking. By designing products that are compatible with several systems, a firm can minimize the risk to become dependent on the success of just one system. (Katz & Shapiro, 1993)
2.5 The retail payment market

According to Segendorf and Wretman (2015), the definition of a payment service is an information service where the information contains which account should be debited and credited, where those accounts are, the transaction amount and when the transaction should be conducted. Further, a payment service has to secure that the person who initiate the payment has the right to do so. Finally, a payment service has to ensure that there is coverage on the payer's account. The Swedish central bank presents in their research about payments that it is beneficial for the society if more payments were electronically (Segendorf and Jansson, 2012). What is most efficient and what people want is not always the same, Arvidsson (2013) found that a cash free society is something a lot of people find intimidating, because they think electronic payments intruded on their integrity, other see potential security risks. These evidence are aligned with the result of Insight Intelligence (2014), which shows that 28 percent of consumers who do not use electronic payment services do so because it feels unsafe. This shows that feelings also have an effect on what choices people do when it comes to how we pay.

The Swedish retail payment market is characterised by economies of scale which benefits the large players, consequently a natural monopoly is created where large actors gets a competitive advantage by being large (Segendorf and Wretman, 2015).

The large banks in Sweden have cooperated to adjust their internal IT systems to a joint infrastructure. They have invested much in existing infrastructure, and changing it entails a huge cost and therefore it is not worthwhile to replace it. On the other hand, households and corporates are much faster to embrace new payment methods. Sweden is the third best country in the world when it comes to infrastructure for broadband and usage of new technology, hence opportunities arises when it comes to technical solutions for the payment market. (Segendorf and Wretman, 2015)

Segendorf and Wretman explains the demand in the retail payment market by demographic segmentation and geographical segmentation. How we prefer to pay depends on how we are used to pay, therefore the age is an essential factor. For example, old people who are used to pay with cash prefer to do so in a larger extent than younger people. Regarding geographical segmentation, it can be seen that the rural areas is depopulated and those who stay are usually older people. Hence, there is a difference in demand between the countryside and cities (Segendorf and Wretman, 2015). Demography’s impact on the retail payment market is also articulated by Arvidsson (2009) who says that people who are used to pay with cash has a harder time to change their habits. On the other hand, young people find it easier to embrace new ways to pay, therefore, the payment market are in some extent driven by young people (Arvidsson, 2009).

In a report by Capgemini (2016) about the world retail banking, they found that banks view customer trust as the number one strength. Secondly, their already established relationship with customers and thirdly, robust risk management. On the other side, banks are constrained by their problem to innovate and move with new trends which is a weakness compared to fintech firms. Further, banks are underestimating the
value fintech services provide and their influence on the banks business (Capgemini, 2016). Despite the threats pointed out by Capgemini (2016) the banks do still have a dominant position on the payment market (Segendorf and Wretman, 2015). Today, two of three bank customers use a service provided by a fintech company (Capgemini, 2016). Segendorf and Wretman (2015) argues that we will see new actors entering the payment market in the future. Today, actors such as Klarna and iZettle have entered the Swedish retail payment market. In the future we will most likely see actors that does not have payment as their core business (Segendorf and Wretman, 2015). 65.3% of bank executives believe fintech firms can become partners through collaboration or investment (Capgemini, 2016). However, only 12.9% of bank executives believe their systems are prepared for the future in banking (Capgemini, 2016).

In the report conducted by Segendorf and Wretman it is seen that the supply of payment services has increased, however, those services are in a larger extent provided by other actors than banks. On the other hand, the supply of cash services has decreased. Interoperability between different payment solutions are a crucial factor for the accessibility of payment solutions (Segendorf and Wretman, 2015).

According to Segendorf and Wretman (2015) there is a trend that regulations are reactive rather than proactive, in addition, Sweden is also regulated by EU who customizes their regulations to suit the whole EU. This is a paradox since a market without regulations is not desirable either (Segendorf and Wretman, 2015). Another pitfall regarding regulations is if they are poorly designed they will stifle innovation rather than encourage it (Segendorf and Wretman, 2015). Segendorf and Wretman (2015) do not believe that forcing retailers to accept a specific payment method is a good idea because it can result in damages on the retailer's business and in worst case they have to close their business. Segendorf and Wretman (2015) argues for pricing where customers have to pay where the cost occurs, for example it is obvious that a cash withdrawal implies a cost and therefore should the customer pay for that service. Such pricing will create a transparent market which probably will be more efficient (Segendorf and Wretman, 2015).
3 Introduction to the retail payment market

This chapter aims to give the reader knowledge about different actors and legislations which are influencing the payment market. By reading this chapter this thesis will be easier to assimilate. The chapter are organized according to the alphabet.

3.1 Bankgirot

Bankgirot is an European clearing house in Sweden, supplying the market with infrastructure for mass payments. They have a central role in the Swedish payment system, offering two different payment solutions, Bankgiro and Payments in Real Time.

The Bankgiro System: Is a system for the Swedish market in which all banks are included. Banks connect their customer accounts with a Bankgiro number. The system automatically withdraws the amount from the payer's bank account and deposits it to the payee.

Payments in Real Time: In November 2012, Bankgirot introduced a new and open platform for payments in real time, called BIR. This infrastructure allows banks and payment institutions to develop and connect their own payment solutions to an infrastructure that allows instant transactions. Bankgirot have mandate from the Swedish central bank to perform around-the-clock payments, which is a prerequisite in order to deliver this type of service. (Bankgirot, 2016)

3.2 Digital Customer Service Interface (DCSI)

In order to enable small payment providers to obtain network effect, DCSI works as a virtual layer for the payment provider to utilize SEPA and card infrastructure. According to the European Banking Association (2015), DCSI can decrease the compliance cost and increase the reach for a small payment provider. This is seen as helpful for merchants that desire to penetrate a wider range of EU since they will only need one payment provider (European Banking Association, 2015). In the European Banking Authority’s vision for 2020, the objectives are to support growth for digital payments, reduce the costs of conducting payments and modernize the Euro payment area. When talking about the technical standard for XS2A it refers to DCSI.

3.3 European 2020 (EU2020)

EU2020 is a ten year long European strategy initiated in 2010 to create growth and job opportunities. The mission is to solve flaws in the current growth model and to create prerequisites for smart and sustainable growth for everyone in the European Union. It contains five overall goals focusing on growth, research and development, climate and energy, education, social inclusion and poverty reduction. The strategy also contains seven main initiatives where innovation, the digital economy, employment and resource efficiency are a few important areas. European regulations and policies should mirror these mutually agreed strategies and goals in order to reach them until the year 2020. (European Commission, 2016)
3.4 European Banking Authority (EBA)
EBA is an independent European Authority with the task to ensure effective and consistent regulation and supervision of the European banking sector. They contribute to the creation of the European Single Rulebook in banking, which has the objective to create a single set of harmonised prudential rules for financial institutions in Europe. The authority also plays an important role in supervisory practices and has mandate to assess risk and vulnerability in the financial market. (European Banking Authority, 2016)

3.5 Finansinspektionen (Fi)
Fi is a governmental authority with the purpose to monitor, regulate and give permissions in the financial market. Fi regulates the financial markets by implementing rules that actors within the market has to follow in order to continue conducting their business there. Fi also analyse the market and monitors risk that can create instability in the financial market. Their mission is to strengthen the consumer's position in the financial market. (Finansinspektionen, 2016)

3.6 Interchange Fee Regulation (IFR)
The Interchange Fee Regulation was voted through by the European Parliament the 10th of March 2015 and entered into force 8th of June 2015. The regulation was commissioned in order to increase the competition in the card-issuing business. (European Commission, 2016)

An interchange fee is a payment which a merchant’s bank is charge with by the issuing bank when a consumer has used the issuing bank’s card in a purchase at the merchant. This fee is deducted from the final amount that the store merchant receives from the acquiring bank for the transaction. This extra fee has been hidden from the consumer and when the retailers pass these costs over to the consumer, price inflation becomes a risk. The intention with the new legislation is to redistribute the revenue from the issuing bank to the merchant and the consumer. This is done by a cap on interchange fees where the maximum charge for a purchase is 0.2% on debit cards and 0.3% on credit cards. (European Commission, 2016)

3.7 Revised Payment Service Directive (PSD2)
PSD2 a is new legislation commissioned by the European Commission. The aim is to protect the consumer better when making payments, promote development and use of innovative online and mobile payments and make European payment services safer (European Parliament, 2016). This is necessary since it has to be easy to pay (especially cross border) in order to facilitate free trade within the European Union.

The legislation states that all actors that wish to offer payment initiation services has to apply to become a financial institute or a payment institute. This ensures that all payment providers have to fulfil a set of minimum criteria, which is set by the European Council, in order to be allowed to initiate payment services. A central register with all approved financial institutions will be provided by EBA, which will ensure that a payment provider is approved to conduct their services. (European Parliament, 2016)
Another important paragraph in PSD2 is access to account, which states that banks have to allow financial institutions to initiate a payment directly from a customer’s bank account. However, the customer has to approve the financial institution’s access to their account beforehand. Furthermore, banks are not allowed to take out any charges and has to apply to the financial institution’s request for necessary information in order to conduct the transaction. (European Parliament, 2016)

3.8 Single Euro Payment Area (SEPA)
SEPA is initiated by the European banking industry in order to make electronically payment as easy as cash payments. All members in SEPA can go to another SEPA country and easily pay with cash, but until now, the convenience of paying has only included cash and not electronically transactions. Therefore, there was a need for an initiative that made debit, credit and bank transactions cross border within SEPA equally convenient as domestic transactions. PWC evaluated the SEPA initiative for all stakeholders to be worth €21.9 billion per year. The migration of member states towards SEPA is monitored by the European Commission and ECB.

Paying in real time is something desirable these days. That digital messages occur instant is something many youths takes for granted, hence it can be hard to understand why a payment should take days to settle. However, making a payment require a different infrastructure than a text message and therefore building an instant payment system is complex. Nevertheless, there are examples of successful domestic instant payment systems. Not yet is there a system allowing payees to send money cross border in real time. ECB has stated a definition of real time payment, it should be available 24 hours per day and 365 days per year (hereafter, 24/7/365). 24/7/365, further, the system should within seconds credit the payee's account meanwhile the payer gets a confirmation of the transaction. This is regardless of the underlying payment instrument, agreements for clearing and settlement.

The development of instant payment solutions has been more successful at domestic markets where there are solutions that has become popular and works well. On the one hand, they have similarities in the way they are working and the user experience, On the other hand, the underlying solutions are significantly different. The instant payment system in Sweden is called Swish. It is built on a real time settlement infrastructure which is jointly owned by the incumbent Swedish banks. Other example of countries with successful instant payment schemes are Denmark, Poland and U.K.

The development of domestic instant payment schemes fragments the payment market and damage the harmonization of the payment market. Therefore, ERPB and EPC are working on a pan-European instant payment scheme. The name of that scheme will be SCT Instant Scheme which is an abbreviation for SEPA Credit Transfer Instant Payment Scheme. The Scheme should focus to be as cost efficient as possible and therefore build on the existing SEPA credit transfer scheme. ERPB and EPC will present the scheme in November 2016 and it should be in force by November 2017.
4 Method

The following chapter will present the method of collecting and analysing empirical data for this study. The scenario method is used and how the empirical data is presented in this chapter.

4.1 Research Design

This study adopts an inductive research approach where the research starts out with a topic of investigation (Collis & Hussey, 2013). This is done due to the fact that the previous research conducted on the area of the retail payment industry is not so comprehensive in terms of current changes in the market. Therefore, an open starting point is where the topic and general directions of the investigation is stated beneficial in order to capture the bigger picture. Collis and Hussey (2013) explains that inductive research often involves moving from individual observations to statements of general patterns, which also can be explained as moving from the specific to the general. This complies with the purpose of this study which is of an exploratory nature where the study will help gain insights and familiarity with the subject of changes in the retail payment market. Furthermore, when investigating topics where generalizations and ideas are more of an abstract nature, inductive research allows the researchers to identify preliminary relationships throughout the research process, since the approach gives a lot of liberty (Pär Blomkvist, 2015).

Study

In order to capture the changes and their relevance to different stakeholders in the retail payment market a case study has been conducted. Eisenhardt (1998) refers to the focus of case studies as “understanding the dynamics present within a single setting”. The purpose of this study is to understand the dynamics of the retail payment market under current changes goes well in line with Eisenhardt’s definition of a case study.

4.2 The Payment Industry

The design of the payment industry case will be a source triangulation. Source triangulation has the purpose to investigate the phenomenon from different perspectives in order to capture a diverse set of views. This is done by interviewing individuals with different perspectives within the industry. The stakeholders that will be interviewed in the study are incumbents (large established firms), challengers (newcomers), merchants, experts (people with insight in the payment market but no interest of who is succeeding) and regulators (institutions that regulates the market).

Scenario planning

One of the triggers to this thesis was an increase of uncertainty about the future in the retail payment market. Because of these uncertainties this study will draw conclusions from the empirical data through a scenario planning method. Eisenhardt and Martin (2000) call markets where change is frequent for high velocity markets where market boundaries are blurred, successful business models are unclear and market
players are ambiguous and shifting. They state that in such markets uncertainties can not be modelled as probabilities because it is not possible to foresee how the market will develop. Hence the choice of scenario planning has been chosen, where all plausible scenarios are perceived equality likely to occur. According to a report regarding the payment market by Capgemini (2015) 90 percent of banking executives believe that the pace of change is increasing. In the same report 96 percent agree that the industry is evolving in a digital direction and only 12.9 percent agrees that their current system can handle such change. This shows that according to banking executives the industry is facing a lot of changes and their core IT systems has to be renewed.

Previous research on the retail payment market conducted by Arvidsson (2009) also used a scenario planning method to investigate market drivers. This further strengthen the validity of the choice of scenario planning in this report.

According to Schoemaker (1995) a scenario analysis will compensate for two common faults when estimating the future. People have in general problem with estimating the rate of change, on the one hand, people tend to underestimate the speed of change, on the other hand, people tend to overestimate the speed of change. Both benefit from doing a scenario analysis in order to view the future in different scenarios rather than just one forecast. Scenario analysis can avoid this by dividing knowledge into things that is known for certain and things that is not know for certain. Schoemaker (1995) argues that nothing is for certain, but in order to not become paralyzed events have to be separated from things that is almost certain from events that are very uncertain things.

When developing future scenarios the goal is not to cover every possible outcome, rather to circumscribe them. Further, developing scenarios is not about corporate strategy, rather thinking about the future. Hence, it is favourable to involve all kinds of stakeholders that can help to predict the trends (Schoemaker, 1995).

The design of this scenario analysis is following the process presented my Schoemaker (1995).

1. **Define the scope** - It is defined in the introduction chapter.
2. **Identify major stakeholders** - Major stakeholders of the payment market are; banks, card schemes, government, Riksbanken, Konkurrensverket, shareholders in payment companies, payee's, payment collector and startups in the payment market.
3. **Identify basic trends** - This research will investigate the trends in the payment market by conducting interviews with stakeholders (see table 3.1 for interview questions) and analyse opinions from experts.
4. **Identify key uncertainties** - Define what is uncertain and which events that are uncertain. Then, list what happens if any uncertainty comes true. Further, a correlation matrix is conducted in order to explore whether two uncertainties are correlated to each other and whether they can co-exists.
5. **Construct initial scenario theme** - After trends and uncertainties are identified it is possible to create initial scenarios. Schoemaker (1995) suggests to cluster positive outcomes and negative outcomes in another cluster. In this stage, the first scenarios are created.

6. **Check for consistency and plausibility** - A few tests are needed. Firstly, check if the trends are within the timeframe of the scope. Secondly, check whether the scenarios combine uncertainties that contradict each other. Third, analyse whether the major stakeholders can or cannot change their positions, and then whether they like the position they possess or wants to change it.

7. **Develop learning scenarios** - Every scenario will be described and assigned a name. The purpose is to learn and study those scenarios.

8. **Identify research needs** - At this stage, it is important to consider if there are any factors in need of more research. For example, there can be emerging industries coming up with new innovations that affects the industry being researched.

9. **Develop Quantitative Models** - Investigate if it is possible to build a quantitative model in order to avoid analysing implausible scenarios.

10. **Evolve toward Decision Scenarios** - Analyse whether the scenarios are the ones worth building strategies around, otherwise, repeat step one to eight. Schoemaker (1995) argues that this stage of the process is as much art as science. To determine the quality of the scenarios they have to be: Relevant, internally consistent, archetypal (the scenarios should be substantially different), describing an equilibrium (the outcome have to be stable in order to apply a strategy to it). To make sure the scenarios describes an equilibrium, the time horizon for the scenarios are set to 2020 because the trends of today will have until then been stabilized. In order to check for internally consistency in the scenarios, experts with in the payment markets have been consulted for a feedback session.

(Schoemaker, 1995)

**Data gathering methods**

This study will gather data from interviews with people who have insight in the retail payment market. As step three in Schoemaker’s (1995) model for scenario planning the interview study is conducted in order to identify basic trends.

**Interviews**

The primary source of data is gathered from 18 interviews with people who have insight in the payment market. As mentioned earlier these interviews are conducted with incumbents, challengers, merchants, regulators and a group of experts. Furthermore, an additional interview took place where a legal expert with insight in the retail payment market was interviewed. Every interviewee received the same questions (see table 4.2) except the legal expert. The legal expert was asked different questions suited to the expert’s expertise and are presented apart from the other interview questions in table 4.3. The interviews were
semi-structured with open ended questions. In table 4.1 the frequency of interviews with each group are presented. Question 1 - 5 and 16 aim to answer RQ1.1, The other questions are necessary to analyse RQ1.

<table>
<thead>
<tr>
<th>Group</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbents</td>
<td>x7</td>
</tr>
<tr>
<td>Challengers</td>
<td>x4</td>
</tr>
<tr>
<td>Merchants</td>
<td>x1</td>
</tr>
<tr>
<td>Regulators</td>
<td>x1</td>
</tr>
<tr>
<td>Experts</td>
<td>x4</td>
</tr>
<tr>
<td>Legal expert</td>
<td>x1</td>
</tr>
</tbody>
</table>

Table 4.1 - Frequency of interviews with each group.

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What are the strongest trends on the retail payment market today?</td>
</tr>
<tr>
<td>2. What are the strongest trends regarding technical change?</td>
</tr>
<tr>
<td>3. What are the strongest trends regarding the appearance of new legislations on the retail payment market?</td>
</tr>
<tr>
<td>4. What are the strongest trends regarding new entrance on the retail payment market?</td>
</tr>
<tr>
<td>5. What are the strongest trends regarding customer demand on the retail payment market?</td>
</tr>
<tr>
<td>6. How will Sweden interpret the PSD2 legislation?</td>
</tr>
<tr>
<td>7. What is the timeline for implementation of PSD2?</td>
</tr>
<tr>
<td>8. What opportunities do you see with PSD2?</td>
</tr>
<tr>
<td>9. What problems do you see with PSD2?</td>
</tr>
<tr>
<td>10. What opportunities/threats do you see with increased competition on the retail payment market?</td>
</tr>
<tr>
<td>11. What competitive advantages/disadvantages do you possess on today’s payment market?</td>
</tr>
<tr>
<td>12. How will your competitive advantages change in a five year perspective?</td>
</tr>
<tr>
<td>13. What type of players will enter the retail payment market in the future?</td>
</tr>
<tr>
<td>14. How will the retail payment infrastructure develop?</td>
</tr>
<tr>
<td>15. If it is not possible to charge for transactions, what other revenue models are possible?</td>
</tr>
<tr>
<td>16. Do you see other trends on the retail payment market in the future?</td>
</tr>
<tr>
<td>17. Other reflections?</td>
</tr>
</tbody>
</table>

Table 4.2 - Interview questions
1. Why do we see a lot of new legislations?
2. How will Sweden interpret PSD2?
3. What will be reviewed to PSD3?
4. What in PSD2 will have to greatest impact on the retail payment market?
5. How is risk shared when a transaction conducted by a third party provider goes wrong?
6. Is it possible for a merchant to set up an own store and start acting as their own payment service provider without paying any transaction cost to the bank?
7. Can the bank charge the customer for having an account?
8. What are the banks’ possibility to sell customer data?
9. What do you see as next step regarding legislation?
10. Will the retail payment market benefit from these changes?
11. What is advocating that the small actors will survive?
12. What part of PSD2 have the greatest possibility for interpretation?

Table 4.3 – Interview questions for legal expert

4.3 Validity and Reliability
The reliability is high if the results of the study are replicable. The interview study will create moderate reliability because every answer is subjective, hence, it becomes hard to replicate the study. However, a large number of interviews will be conducted which will increase the reliability. Furthermore, since the questions asked in the interview study are presented in table 4.2 and 4.3, the possibility exists to replicate and approximately get to the same outcome. However, the interviewees have asked to be anonymous since the subject of this study is sensitive. That is because a few interviewees are in the committee of implementation of PSD2, others do not want to reveal their strategies and if their answers regarding how they see the future and their strengths, competitors can use such information to their advantage.

However, whether the study is replicable or not does not answer if the study has answered the research question or not. Hence, the method used must be valid as well. According to Hussey and Colley (2013) qualitative research methods usually have more validity. In this research the interviews will give validity since it will be possible to get deep insights of the phenomena and the respondents will have the possibility to give more complex answers to the interview questions. Finally, to enhance the reliability further, a triangulation of different sources will be used. The triangulation will increase both validity and reliability further.

4.4 Generalizability
In order to generalize the study, good understanding of the subject being studied is a necessity (Collis and Hussey, 2013). Furthermore, the case study can never be statistical generalized only analytical generalized (Blomkvist & Hallin, 2014). To conduct an analytical generalization of the research, Blomkvist and Hallin (2014) argues that such generalization require a case study were choice of data gathering and analytical method is well considered, meanwhile the one who generalize most have a good insight on the topic in
order to understand how to make the generalization. This study will have a low generalizability to other industries since there are many factors who determine the dynamic in the retail payment industry, and therefore, if one is to generalize based on this study, it will require a deep understanding of the dynamic in this market. However, in order to increase the certainty of the generalizations in this study, two experts have assisted in the validation of the scenario analysis in order to ensure that no generalizations that are not possible to do have occurred.
5 Result

This chapter presenting the result accumulated during the interviews as stated in the method chapter. The respondents are clustered into incumbents, challengers, merchants and experts. Their answers are presented individually under each question asked during the interviews. Under each question the answers are presented for each cluster in order to easily compare between the groups. In the end of this chapter the interview with the legal expert is presented

5.1 The clustering of interviewees

**Incumbents** are represented by banks, card schemes and payment infrastructure.

**Challengers** are represented by young companies on the Swedish retail payment market who aims to take over the incumbent actors’ market shares.

**Merchants** are the one who uses retail payment services in order to collect a payment.

**Regulators** are the institutions with the responsibility to develop new regulations for the Swedish retail payment market.

**Experts** are a group of interviewees that have insight in the Swedish retail payment market but does not have a direct financial interest regarding which actors succeeding in the market.

**Legal Expert** is an interviewee with deep knowledge about legislation with in the retail payment market. This interviewee does not have an interest in which actors succeeding in the market.

5.2 Strong trends in the retail payment market

This section presents the interviewees answers regarding what they view as the largest trends in the retail payment market. The interviewees were asked to explain their thought on trends within five driving forces of the retail payment market: technical change, new legislations, new entrances and customer demand. Furthermore, in table 5.1 the coherence of the interviewees answers is presented.
| Incumbents | 7/7 – EU is the main force in regards to new legislations  
3/7 – Merchant push EU to regulate in their favour  
2/7 – Customers demand secure payments services most of all  
2/7 – Customers demand convenient payment services most of all |
| --- | --- |
| Challengers | 2/4 – Competition is the main trend on the retail payment market  
2/4 – Convenience is the main trend on the retail payment market  
3/4 – The mobile phone have a great impact on the retail payment market  
3/4 – Non-functioning competition is the main force for new legislations  
3/4 – New ways to transfer money is driving new entrances  
2/4 – New entrances are able to enter because they are niched |
| Merchants | 1/1 – The big banks are the main force on the retail payment market  
1/1 – Merchants see themselves as an influencer for new legislations  
1/1 – New ways to transfer money is driving new entrances  
1/1 – Customers demand convenient payment services |
| Regulators | 1/1 – High potential revenue streams is the main force for new entrances  
1/1 – Security is the main trend for new legislations  
1/1 – Customers demand convenient payment services most of all |
| Experts | 2/3 – Technical development within digitalisation changes the retail payment market most of all  
2/3 – The mobile phone enables new opportunities on the retail payment market  
3/3 – EU is the main force in regards to new legislations  
3/3 – Unserved customer needs enables new entrances to enter  
3/3 – New ways to transfer money is driving new entrances |

Table 5.1 – Coherence of the interviewees answers

**Incumbents**
The incumbent actors view on what are the strongest trends on the retail payment market, is incoherent. Some say that customer demand has the largest impact on the development of the retail payment market, other think that the technical development has the largest impact. Another strong trend that was mentioned is that new actors such as Apple is entering the retail payment market in order to give their customer additional value and sell more devices.

When the incumbents were tasked with explaining what they perceived as a driving force for technical change, the smart phone was identified as the most important technical development. They emphasised that the smart phone has enabled the development of new services on how payments are done. Furthermore, some incumbents believe that initiatives from regulators, e.g. SEPA, encourage new technical solution in the payment market. They said that regulatory institutions try to make it easier to develop payment initiation services by creating infrastructure that is not fully controlled by the incumbent banks. These initiatives reduce the entrance barrier, since challengers do not have to rely on the incumbent banks permission to access payment infrastructure.

In regards to what is driving new legislations on the retail payment market, the incumbent interviewees mention EU as the main source. They stated that EU’s aim is to increase competition in the retail payment market and create a harmonized market. Some incumbents also mentioned that the merchant side are pushing EU to regulate to their favour. One interviewee said that the merchants sell pitch to EU is, lower payment cost for merchants will result in lower costs for customers. However, the interviewee said that a
lower transaction price probably only will benefit the merchants and not result in lower prices for the end customer. Another interviewee also mentioned that the political risk from harming the banking sector with new regulations is very low and that is a reason to why there are new regulations on this market where the dominate actors are the banks.

The reason why new companies enter the retail payment market according to the incumbent interviewees is not coherent. Some interviewees believed that new companies enter the retail payment market to get access to the information created when conducting payments. Other emphasised that it can be that the technology exists and it fits well in the payment market. Another reason was that the incumbent actors have been slow to adapt to new technology and fulfilling customer needs. Therefore, unserved customer needs have occurred that gives new actors an opportunity to fulfil these needs. In addition, a reason for new entrances that was mentioned is the possibility to achieve a closer relationship with the customer through offering a payment service. Furthermore, a few incumbent actors believe that easy access to venture capital is a reason to why many new startups are entering the retail payment market. They further emphasised that successful precursors, such as Klarna, have increased the venture capitalists’ interests in the retail payment market and hence increased the amount of funding to startups.

When the incumbents answered to what it is that drives the customer demand, mainly two trends were mentioned. Some believe that customers value security and others mentioned explicitly that customers want convenient solutions. A couple of interviewees said that customers do not primary want to pay, paying is a secondary need in order to get what they want, therefore, users of payment services just want to pay as fast as possible.

**Challengers**

All challengers agreed that one of the strongest trends in the retail payment market is the customers demand for convenience. However, there was a difference in opinion too what drives the retail payment market in the largest extent. One half of the challengers lifted up increasing competition as the main force and the other half convenience.

When asked what they believed was driving technical change a majority of the challengers named the mobile phone’s entrance on the payment market as one of the greatest developments that enabled new business possibilities. They believed that the greatest benefit from mobile phone’s is the possibility to get access to the consumers’ everyday life.

In regards to what drives new legislations on the retail payment market the challengers considered the history of having non-functioning competition as one of the biggest reasons. They believe that a few big actors have disproportionate power over the market and that regulatory institution have started to notice it. Furthermore, some mentioned the development of cross border transaction as a challenge that regulators wish to stimulate with new legislations. One challenger said that European countries have wished for
international card schemes in order to enable cross border transactions, which is the reason behind Visa and MasterCard’s domination. However, there are technical solutions today that can enable more actors to establish themselves as payment service providers with global coverage which challengers believe should be encouraged from regulatory instances.

When asked what is driving new entrances on the retail payment market the interviewed challengers mentioned technical development that enables new ways to transfer money as one of the largest trends. They also said that the new directive PSD2 XS2A that open ups the incumbents’ infrastructure and enables TPPs to access consumer accounts as an essential development in order for new actors to enter. A reason to why challengers have been able to establish themselves was due to their ability to focus their business and become niched. The challengers said that incumbents have chosen to focus their business on the most profitable customer segments, which has resulted in a few customer segments need becoming unserved. These are the segments which new entrances have tailored their solutions for.

Convenience are the trend in customer demand, this was coherent by all respondents in this group. Additionally, a few interviewees mentioned the price of a payment as an important demand from customers.

**Merchants**

The interviewed merchant said that the big banks, Visa and MasterCard are the strongest forces in the retail payment industry. They believe these incumbent actors drive the market after their best interests and that it has been the historical reason to why the market has had low competition. They also mentioned near field communication (NFC) technology as a driving force in the market.

Regarding what is driving the technical development in the retail payment market the merchant did see new legislations, such as PSD2, as one the largest trends. The merchant mentioned that regulatory institutions desire to stimulates competitiveness and that it will result in new innovative solutions. The merchant also perceived Sweden's high wages as a driver for new payment technology, since it is desirable to reduce the need for cashier personnel.

When asked what it is that is driving new legislations on the retail payment market the interviewed merchant perceived them as one of the strongest forces. The merchant stated that they notified the Swedish competition authority about low competition and that the current situation of the market put the consumers in a disadvantage. Furthermore, the interviewee said that the notification to the Swedish competition authority were one of the triggers for the interchange fee regulation.

In regards to new entrances on the retail payment market the merchant mentioned the large amount of everyday transactions as a large factor to why new actors are starting to enter the market. Another trend that was emphasised is new technology that is enabling new actors to enter a market. This is perceived as an important development in order for the historical high entrance barrier to be reduced. They also stated...
their own desire for more alternatives when choosing payment methods as a big factor. When the merchants distinctly express their wishes for more alternatives it becomes more attractive to enter the market since the demand is identified.

Merchant believed the dominant trend in customer demand is convenience. However, the interviewee also emphasised the importance of security, but said that it is more a hygiene factor then a driving force of the market.

**Regulators**
As the main trends in retail payment market did the interviewed regulator mention cost efficiency as a driving trend why companies develop new payment services.

When asked what is driving technical change in the market the interviewee mentioned that the technical expertise in today’s society have increased and lead to higher acceptance of new technology. The regulator also said that this have gotten the digitalization of the retail payment market in rolling.

Within new legislations the regulator say that security is one of the most important issues. Those who deliver payment services need to have good security in their communication of information. Furthermore, the interviewee believe one important task is to lower the barrier for people to use new payment services. The regulator said that it may be difficult for individuals without experience of the technology used by the new services, which can hinder them from conducting safe payment. That is why regulatory initiatives are needed in order to increase customer safety.

When the interviewed regulator where asked about what is driving new entrances to enter the retail payment market, the potential revenue stream was the answer. Furthermore, the interviewee emphasised the importance of the internet as a platform. The internet enables easy access to a platform with global coverage, which increases the potential range of customers. The regulator stated that this have led to lower starting costs and hence a decreased barrier for smaller actors to enter the market.

In regards to customer demand the interviewed regulator state convenience and availability as the most important trends. The interviewee said that the consumer lose interest if there are too many steps before a transaction is finalized, hence it is important that a payment service is easy to use.

**Experts**
The interviewed experts perceived the technical development within digitalization as the force that changes the retail payment market in the largest extent. They said that the digitalisation makes it possible to reach more people with less resources. Furthermore, they emphasised that the possibility derived from the digitalisation trend is the elimination of intermediaries. On a close second place the experts perceived demography as a critical trend on how we pay. They stated that the development of the Swedish demography has an impact on the retail payment market and hence determine what type of services that will be used in the future.
When the interviewed experts where asked what they believed is driving technical change in the retail payment market, they mentioned three things. Firstly, they perceived the development of the mobile phone as a technology that enables new business opportunities and more advanced payment solutions. Secondly, they emphasised the trend of cost transactions among companies. This trend is leading the technical development of services in the retail payment market towards solutions categorised with economies of scale. Thirdly, the experts said that the development of block chain is an important trend to follow in order to keep up with the future changes of the market. However, they mentioned that block chain technology still is in its crib and that it will take time before it is mature enough to make a significant impact on the industry.

In regards to what is driving the development of new regulation did the experts perceive EU as the main force. They said that EU intend to create an inner market in Europe with new regulation and that future regulations will continue in that direction. Additionally, the experts emphasised that regulators desire to increase the innovation rate by increasing competition, hence the goal of new regulations is to enable more actors to enter the retail payment market.

The interviewed expert believe that unserved customer needs is a large incentive for new entrances to enter the retail payment market. They said there are possibilities today that previously not existed in regards to how payment services are designed, which enables new actor to fulfil these unserved needs. Furthermore, they emphasise that the incumbent banks are locked in their old systems and have a hard time adopting to new changes, which has given new entrances an advantage.

The interviewed experts answer to what they see as the largest trend in customer demand was incoherent. One of them saw convenience as the most critical trend, another availability, to always be able to pay when one wants to, and the third said that demography affects what is demanded in the largest extent.

5.3 Trends within legislations

In this section the interviewees’ thoughts on new legislations are presented. They were asked about the interpretation, time line, problems and opportunities with current legislations. Additionally, this section has answers from an interview with a legal expert. The questions asked to the legal expert were not the same as to the rest of the interviewees. This was done in order to reach clarity in complicated issues regarding PSD2. Furthermore, in table 5.2 the coherence of the interviewees answers is presented.
| Incumbents | 5/7 – PSD2 will be implemented without changes  
3/7 – PSD2 will be implemented until early 2018  
1/7 – PSD2 will be implemented until late 2018  
7/7 – Banks will have the opportunity to create their own third party solutions  
4/7 – Authentication issues with letting TPPs access bank infrastructure |
|-----------------|------------------------------------------------------------------------------------------------------------|
| Challengers     | 4/4 – PSD2 will be implemented without changes  
4/4 – PSD2 will be implemented until January 2018  
2/4 – It is unclear how the actual implementation of PSD2 shall be implemented in the industry  
2/4 – New entrances of actors that previously have not been able to enter the TPP market  
2/4 – New applications that collect all the customer’s bank accounts and information under one roof |
| Merchants       | 1/1 – It will take between two and three year for payment actors to become compliant  
1/1 – Banks will point out security issues when infrastructure access is granted to TPPs |
| Regulators      | 1/1 – All European countries will interpret PSD2 in the same way  
1/1 – PSD2 will be successfully implemented until January 2018  
1/1 – TPPs are able to access the banks account infrastructure for free |
| Experts         | 2/3 – Technical standards are important in order for PSD2 to succeed  
1/3 – PSD2 will be implemented until late 2018  
2/3 – Do not know when it will be implemented  
2/3 – PSD2 will lead to an increased rate of innovations |

Table 5.2 - Coherence of the interviewees answers

**Incumbents**

The incumbent actors believe that Sweden will implement PSD2 without any big changes from the proposed directive by EU. They also talked about the possibility to do customized interpretations, however, no one sees those interpretations as something that will have any impact, but instead only be about minor details. Furthermore, one of the interviewees stood out from the rest with saying that either will the incumbent actors try to delay or destroy the implementation of PSD2 or they will embrace it and create new opportunities out of it.

When asked about the time line of the implementation of the new PSD2 legislation did the incumbent interviewees answers differ between early 2018 and late 2018. However, one interviewee believed the implementation would take even longer and predict 2020 as a more likely scenario.

In terms of plausible problems with new legislations did the interviewed incumbents talk about authentication and the risk that comes with letting third party providers access bank accounts. How the authentication technique should be developed rises a lot of questions and the interviewees sees an increased risk for fraud. Another problem that was emphasised by the interviewees were about the split of risk between third party providers and the bank. The incumbents perceived that new regulations treats them unfairly and that all risks descended from the TPP’s operations is laid on the incumbent. They mentioned that this is a question regulatory institutions have to solve, before a fair market can be achieved.

In regards to new opportunities derived from the PSD2 legislation did the incumbent interviewees perceive the banks possibility to start their own third party solutions as the largest outcome. The banks are
more strictly regulated than smaller firms, which has made it difficult to enter unregulated markets. However, when the grey area of the TPP market is lifted and becomes regulated an opportunity arises for the incumbent banks to enter as well. However, it was also mentioned by an interviewee that the incumbents would rather prohibit challengers from entering the retail payment market, but they perceive the PSD2 legislation better than none regulation.

Challengers
The interviewed challengers believe that Sweden will interpret and implement the PSD2 directive as it is written. Furthermore, one respondents believe it may be implemented with even stricter regulations than the directive proposes. This is due to the fact that Swedish regulators historically have implemented directives from EU in the strictest ways possible.

All challengers agree that PSD2 will be implemented into law until January 2018. However, they also expressed concerns regarding the factual implementation of the new legislation in the industry. The respondents explained that the IFR part of the legislation puts new requirements on the card business and that a lot of important questions are not answered yet. Questions as, will branding cards be allowed? How should terminal equipment work? Requirements like these takes time to implement, which may cause firms to be noncompliant when the new legislation go into law.

In terms of plausible problems with the PSD2 directive the interviewed challengers did not give a unified answer. One concern was about compliance becoming too expensive, another authentication and security issues, a third about the risk for global actors as Apple and Google utilizing the new opportunities given by PSD2. The entrance of global actors was seen as a threat since they would likely develop a dominant solution where competition becomes eliminated.

In regards to the opportunities derived from the new legislations the interviewed challengers mentioned the possibility for actors to go in to the retail payment market that previously have not been able to enter. With PSD2 implemented, more actors will be able to take on a third party payment provider position. Furthermore, they predict a development of applications that gather the customer’s different accounts and information under one roof. This will enable the customer to become more disloyal to their bank in a systematic manner and have different banks for different purposes. The respondents further emphasised that challengers benefit the most from the PSD2 legislation since it will become easier for challengers to obtain the customer’s trust. Now they can obtain trust from becoming compliant with a legislation, instead of having to spend a long time convincing every customer that they are trustworthy.

Merchants
When asked about the interpretation of the PSD2 directive the merchant did not gave a clear answer. However, the merchant did emphasise that they believe the main contribution of the directive is access to account. It enables more actors to enter the market and hence increase competition in the retail payment market.
In regards to the time line of the implementation of the PSD2 directive did the merchant believe it will take two to three years for payment actors in Sweden to become compliant with the new laws.

In terms of plausible problems with the PSD2 directive the merchant stated that there is an overhanging risk that incumbents will be pointing out disproportionate levels of risks with the opening of bank infrastructure towards TPPs. However, if incumbents go in that direction the merchant said they will be able to take aid from successful TPPs and disprove expressed security issues from incumbents. Another concern the merchant mentioned is the entrance of unethical TPPs. This could help incumbents to shut down the current development towards open infrastructure if the trust for TPPs diminish.

The interviewed merchant believe that the main opportunity derived from PSD2 is the possibility for smaller actors to enter the market. This will increase competition and lead to lowered prices on payment services for both the merchant and the end consumer.

**Regulators**

When asked about Sweden’s interpretation of the PSD2 directive the interviewed regulator said that every country in Europe will interpret it in the same way. This is due to previous learnings from legislations within the retail payment market that have helped to create a clearer directive and hence secure the success of PSD2.

In terms of a time line to the implementation of the PSD2 directive the interviewed regulator believed that January 2018 is enough time for payment actors to become compliant with the new legislation. Hence, no additional time is needed in order for the industry to catch up with the new law.

The regulator explained that during the transition time to the implementation of PSD2 there is a provisional regulation that prevents incumbents from shutting out TPPs from operating in the market. However, the interviewee said that there is no actual protection in place to prevent banks from hindering TPPs from connecting to their infrastructure. If this happens, current TPP will not be able to survive until the full implementation of PSD2. Another issue the regulator emphasised were the amount of security and surveillance requirements. If these recruitments become too high it may be too expensive for small firms to operate, which could jeopardize the survival rate of smaller firms.

The interviewed regulator believe that the main opportunity can be derived from the creation of a clear and regulated market for payment institutions. This will incline cheaper payment solutions for merchants and solutions that gives consumers a better overview of their economy. The regulator also brought up the issue about whether the banks will be able to charge for the TPPs access to their infrastructure or not.

**Experts**

The interviewed experts did not have a perception on how Sweden will interpret and implement the PSD2 directive. However, they did emphasise the importance of developing technical standards in order for it to succeed.
In terms of a time line for the implementation of the PSD2 directive did the interviewed experts believe it will be done in the end of 2018. Furthermore, they believed the industry will be able to adjust to the new possibilities in a fast rate since there are already companies waiting for the law to go into effect.

In regards to plausible problems with the new PSD2 directive the expert mentioned that the proposed directive by EU is developed to suit the whole region and therefore may not fit the Swedish market. Hence, the regulation might do more harm than good in the Swedish market. This is due to the fact that the Swedish market is relatively well functioning and we already have TPPs acting on the market today.

Another expressed concern was that the incumbent banks will face problems if they cannot build new offerings to their customers and may become out sprung be the challengers. Furthermore, the experts did emphasise that it is important to divide the responsibility of the risks linked to payments between different actors and stated that it may cause problems if it is not divided fairly.

When asked about the main opportunities derived from the new directive the experts emphasised the possibly of an increased innovation rate. They believed that it will be possible to offer more specialised solutions than the current retail payment industry is able to supply. As a consequence, the consumers will receive more convenient, cheaper and secure payment services.

**Legal expert**

Regarding the issue on how responsibility between different actors will be divided the legal expert explained that the banks will have to repay the customer for wrongfully conducted transaction. The bank can then demand a payback from the third party provider if the TPP is the faulting link. The legal expert also stated that this is not something the banks like, however the legislation is clear and that it is nothing Sweden can influence. Furthermore, an interpretation that was up to every country to do in PSD was whether it should be prohibited to charge customers for using certain card or not, which Sweden chose to prohibit. However, with the new PSD2 directive this fee will be prohibited for the most common cards in all European countries, but it does not say anything about fees for services such as mobile payment.

Another uncertainty brought up by other interviewee were the risk for high compliance cost, that can decrease the survival of smaller actors. The interviewed legal expert explained that if a payment provider does not conduct transactions over a certain amount, they do not face that much surveillance since they will be registered as a payment institute instead of a financial institute.

In regards to the question whether the banks will be able to charge TPP for supplying them with infrastructure the legal expert explained that the law does not say anything about any fees from TPPs to banks. However, the law say that a TPP does not need a contract with the bank in order to conduct payments on their accounts. Consequently, without a contract it will be hard for banks to charge the TPPs. Hence, it is more likely that the customer will be charge with this fee, since they have a contract with the bank.
In terms of future legislations, the legal expert mentioned further integration of the European payment market. Hence, regulatory initiatives that does not have the desirable effects on the retail payment market may be further adjusted in the payment service directive three. The legal expert also believe it will be desirable to get away from cash, hence do everyone need to have access to a bank account. If that does not happen naturally do the interviewee believe it will be forced by new regulations.

5.4 The stakeholders view on their position in the retail payment market

This section presents the interviewees’ thoughts about their own position in the retail payment market. The interviewees where asked questions about their competitive advantages/ disadvantages and opportunities/ threats with increased competition. Furthermore, in table 5.3 the coherence of the interviewees answers is presented.

| Incumbents          | 2/7 – It will become easier and more important to build relationships on the retail payment market  
|                     | 3/7 – Global companies will enter the retail payment market  
|                     | 3/7 – Real time payment influence the development of infrastructure |
| Challengers         | 2/4 – It will become more important to collaborate between actors on the retail payment market  
|                     | 1/4 – Apple and Google will enter the retail payment market  
|                     | 1/4 – Banks will create similar services as today’s challengers |
| Merchants           | 1/1 – Increased competition will put pressure on the incumbent actors  
|                     | 1/1 – Technical companies as Apple and Samsung will enter the retail payment market |
| Regulators          | 1/1 – PSD2 is a necessity in order for current TPPs to survive  
|                     | 1/1 – Current actors competitive advantages will not change after PSD2 has been implemented |
| Experts             | 3/3 – Incumbent banks are strong because of their history with collaboration  
|                     | 3/3 – Incumbents are locked in their own systems  
|                     | 2/3 – Apple and Google will enter the retail payment market  
|                     | 2/3 – E-commerce companies will enter the retail payment market  
|                     | 3/3 – Infrastructure benefits from economics of scale |

Table 5.3 - Coherence of the interviewees answers

Incumbents

A recurring theme was that the incumbent sees the fact that they are incumbent as something that makes them strong and gives them a competitive advantage. Furthermore, the incumbent actors believe this advantage is due to their big volumes and their already existing customer base. They also perceive their possession of a great amount of trust as an advantage. They emphasise that trust is a key buying criteria in order to attract customers to a payment service. However, due to the implementation of PSD2, the interviewees mentioned that some of the above mentioned advantages will become less affective. It is because the benefits gained from being large will not remain the same. However, the interviewees do not mention that any of their advantages will go away with PSD2 implemented.

Regarding weaknesses is the incumbent interviewees answers not coherent. One expressed weakness was the ability to create niched services, like most startups do, which makes it a lot easier to succeed and make
a great solution. Another response was the incumbents’ weaknesses to adjust to changes in the market environment compared to startups.

The interviewed incumbents believe that increased competition will increase the rate of innovation on the retail payment market. However, whether it is a good or bad thing for this cluster is not coherent. A few argues that an increased innovation rate is beneficial because it forces all actors to sharpen their offerings. Another opinion is that increased competition is not favourable for banks, since they may lose their current oligopoly. However, the incumbents stated that building partnership in the new retail payment market will become easier and it will create beneficial opportunities even for the incumbent actors.

**Challengers**
The interviewed challengers perceive one of their competitive advantages to be their bank coverage. They stated that it will be hard for merchants to switch to a new established payment provider with less coverage. Another competitive advantage the challengers mentioned was trust. They said that their customers have trust in their solutions, however, they also emphasised that this competitive advantage will decrease due to the PSD2 legislation which will implement a certification for payment institutions. This certification will enable smaller firms to reach enough trust just through becoming compliant.

In terms of new opportunities derived from increased competition did the challengers believe that collaborations will become easier to obtain. They said that it will become a central role in every firm's business in order to become successful. The challengers also mentioned that increased competition will result in a higher degree of niching. They said that that increased competition will create a market where the actors that creates the best solutions will be the winners, hence, put higher demands on service which will be easier to obtain by niching. The respondents also emphasized that price reduction might not be what wins over the customers.

**Merchants**
When asked about the merchants’ competitive advantage they emphasised the importance of size when negotiating terms with payment providers. Large actors will have more power to negotiate better deals for themselves in discussions with banks.

The main benefit the merchants mentioned with increased competition is the pressure it will result in on the incumbents to develop their products. Furthermore, they expressed that it is important to develop cost effective payment solution and that it does not matter who supplies them. Hence, they are very open to new entrances to the payment market who can supply them with attractive services.

**Regulators**
When asked about how current actors competitive advantages may change after the implementation of PSD2 did the interviewed regulator say that they do not believe that their competitive advantages will change in any drastic way. However, the interviewee did emphasise the necessity of the PSD2 legislation in order for current TPP’s to continue their business.
The regulator believe increased competition will lead to reduced prices on payment services. The interviewee also said that better and more secure solutions will be developed because of increased competition. However, the regulator emphasized that too many alternatives may lead to complications for the consumer if the merchants chose to use different payment solutions that are not compatible with each other.

Experts
The interviewed experts said that a history of collaboration is the reason why banks are strong today. The incumbent banks have economies of scale due to their large volumes and have the possibility to reach a lot of people when they bring new services to the market. However, they also said that the incumbent actors disadvantage is that they are locked into an old infrastructure. Furthermore, the experts said that payment services are only one part of the incumbent banks’ offerings and is questioning whether banks can be best at payments or not.

The interviewees in the expert cluster believe that more players entering the market will provide increased customer value in payment services.

5.5 The stakeholders view of the future in the retail payment market
In this section is the interviewees view on the future of the retail payment market presented. They were asked questions about new entrances, development of infrastructure, alternative business models and plausible strong trends in the future.

| Incumbents | 2/7 – Value adding services will increase in importance |
|           | 3/7 – Do not believe the price of payment services can approach zero |
|           | 3/7 – Block chain will become a big trend in the future |
| Challengers | 4/4 – Value adding services will increase in importance |
|           | 4/4 – Same main trends in the future as today |
| Merchants | 1/1 – Loyalty programs will increase in importance |
|           | 1/1 – Merchants are interested in targeted advertisement enabled by mobile payment services |
|           | 1/1 – The future retail payment market will only consist of a few large actors |
| Regulators | 1/1 – Yearly subscription fees is a plausible business model for payment providers |
|           | 1/1 – Big Data may be used as tradable goods |
| Experts | 3/3 – Value adding services will increase in importance |
|           | 1/3 – Big Data may be used as tradable goods |
|           | 1/3 – Cashless Society will be a big trend in the future |
|           | 1/3 – Business network will become more important in the future |

Table 5.4 - Coherence of the interviewees answers

Incumbents
The incumbent interviewees believe that large companies will enter the market when the PSD2 legislation is fully implemented. They mentioned actors as H&M, Apple and Google as possible entrances, since they may be interested in developing their own payment initiation services in order to collect more information about their customers.
When asked about the development of infrastructure the incumbent interviewees mentioned a plausible transition towards real time payments as strong trend. However, real time payments are more expensive than slower payment infrastructures, as a consequence, the incumbents believed real time payments will only be used where it creates additional value. Furthermore, the incumbent interviewees mentioned that EU will introduce an instant payment scheme in the autumn of 2017, which is developed by the European payment council, hence strengthening their belief that the use of real time payments is an increasing trend. Finally, the interviewees also emphasised the importance of interoperability that enables different islands of payment solutions to be connected to each other.

In a scenario where it is not possible to charge for payment services the interviewed incumbents mentioned two alternative revenue streams. Firstly, value adding services as a plausible solution to how a payment provider can obtain revenue if transaction cost went down to zero. Secondly, capitalizing on customer data by selling it, however, the incumbents do not believe it is a valid strategy for banks in today’s payment environment due to the customers’ sensitivity to private integrity. Furthermore, the interviewees also mentioned that they do not believe that a scenario where it is not possible to charge for payment service is plausible.

When asked about what they saw as plausible future trends the incumbents mentioned block chain as a strong force in the future. However, they did not have an answer to what extent block chain can be used within the retail payment industry. Furthermore, the respondents believe that the rate of change will increase in the future and the that the change is happening because of new technology.

**Challengers**

In terms of new entrances on the retail payment market the interviewed challengers believed large companies as FaceBook and Apple as plausible entrances. They said that these actors will be able to use payment services as a secondary service in order to create additional value to their core business or to collect information about their customers. Furthermore, the challengers said that it is likely that the incumbent banks will start to create similar services as today’s challengers. Another trend that was mentioned is the banks selloff of services outside their core business. The case when SEB sold their card acquiring business was mentioned as an example. According to one respondent did SEB sell this division because they believed another firm could manage it better for their customers than themselves.

When asked about the future development of infrastructure the interviewed challengers believe that real time payments will influence in a large extent. These platforms will be much faster and have an open structure where cross border transactions are possible.

In a scenario where charging for payment services is not possible, the challengers said that associated services to payment product will take on a larger role. Furthermore, as the consumer becomes less willing to pay for payment services the focus will be on business to business solutions. Challengers emphasised that it is important for merchants to enable their customer to buy their products as convenient as possible.
and that it is value merchants will continue to be willing to pay for. Another solution that was mentioned is a subscriptions strategy. Payment providers may start to create complete payment solutions and package them in different ways. Hence, create a recurrent revenue flows that enables the payment provider to create profit from their services.

In regards to future trends that do not exist today the interviewed challengers believed that they will remain the same. Convenience will continue to be the number one customer demand and customers will also require additional functionality from payment services. Cross border payment will also be important due to our increasing habit to shop over the internet, where we are not bound by national borders.

**Merchants**
The merchants said that the believe actors like Apple and Samsung will enter the payment market in the future. They also express their desire for companies such as Seamless to become successful in the retail payment market, which would give them more alternatives and hence reduce the banks hold over the prices.

When asked about the future development of payment infrastructure the interviewed merchant had not any comments.

In regards to the scenario where the price for a payment service approaches zero the interviewed merchant see loyalty programs as a plausible business design for payment actors to use, which merchant will be willing to pay for. The merchants are always interested in knowing more about their customers purchase behaviours, which means that the solution would be attractive. The merchant also expressed an interest in targeted advertisement through mobile phones.

In terms of future trends that do not exist today did the merchant believe that large volumes will increase in importance and that the future retail payment market will consist out of just a few strong actors.

**Regulators**
The interviewed regulator did not have any comments to the questions regarding new entrances, the development of infrastructure or future trends.

In a scenario where the price for a payment approaches zero did the interviewed regulator mention yearly subscription fees for payment services as a plausible revenue stream design. The interviewee also said that financing a payment solution could be done through advertisement, which have not been tried yet according to the interviewee. The regulator also mentioned a scenario where big data is sold by payment providers. However, the interviewee emphasised that it is a controversial idea where personal information has to be handled with great care. In order to avoid this pitfall did the regulators present a possible solution where a payment provider could anonymise the individuals’ data and sell it in bulks.
Experts
In terms of new entrances on the retail payment market the interviewed experts see Apple and Google as plausible new players who can benefit from entering. They believed that both Apple and Google can enter the market to a lower cost due to their already existing customer base compared to someone who starts from scratch. Furthermore, these actors do already have high trust from their customers which could capitalized and a payment service could be a good compliment to their already existing services. Finally, the experts also believe that companies that today are in the ecommerce business will develop their own payment services in the future.

In regards of future development of infrastructure, the interviewed experts emphasised that infrastructure benefits from having economies of scale, which will lead to larger and fewer infrastructures in the future. Decentralisation of the retail payment infrastructure with blockchain was also mentioned, where the interviewees believe it can affect SWIFT. Furthermore, the experts said that interoperability between different infrastructures will increase in order to address the customers increasing habit to purchase products on the international market.

In a scenario where it is not possible to charge for payment services the interviewed experts believed value adding services is the answer. They believe merchants always will be interested in services that gives additional value such as increased sales, or make administrative functions easier. Another solution that was mentioned was collecting information as tradable goods.

When asked about what they saw as plausible future trends the experts mentioned that networks will be more important and that the internet of things will make it possible to pay with all of our connected devices. Furthermore, the experts believe we will put physical money behind us in the future and fully commit to a cashless society.

5.6 Summary of trends
In table 5.5 a gross list is presented of the trends mentioned by the interviewees. Further, this list laid as a foundation for the following discussion where the most important trends were identified with the help of two experts. The discussion was fully open and the participants were allowed to express their thoughts freely.
| The entrance of actors without payment as core business |
| Customers demand convenient payment solutions |
| Customers willingness to accept new payment actors |
| The intermediaries importance in the market is decreasing |
| Smart phones enables new types of payment solutions |
| Merchants push EU to regulate for more competition in order to get more payment alternatives |
| EU is trying to stimulate competition in order to reach a higher innovation rate in the market |
| EU strives for a harmonized market through new regulations |
| Initiatives from regulators to lower entrance barriers to market |
| Access to customer information generated by payment transactions |
| The possibility to tap into unserved customer needs |
| New ways to transfer money |
| There is no value in paying, it is a secondary need for the consumer |
| How well market actors solve security issues |
| Interoperability between different payment solutions that enables global coverage |
| The development of cost efficient solutions |
| The development of demography |
| The possibility to cut transaction costs and find solutions with economic of scale |
| The development of cross border transactions |
| Incumbent banks have a hard time adopting to new changes |
| The development towards a cashless society |
| Increasing importance of large volumes |
| Low political risk from harming the banking sector with new regulations |
| Easy access to venture capital |

Table 5.5 – Summary of trends
6 Analysis

This chapter answering the research questions by analysing the result and consider the previous research in areas regarding the research questions.

6.1 RQ1.1 What are the most critical trends in the payment market?

By analysing the result, it is clear that a few things are undeniable. A majority of interviewees talked about convenience and that people do not talk about how they are paying. This is consistent with the result of an interview with an incumbent actor who said: “We do not want to pay. We pay because we want something else”. Hence, the payment should be as convenient as possible. The interviewees are also coherent regarding that smart mobile phones will enable new possible and better solutions when payment services are built on the mobile platform. That payment should be secure is not a surprise due to it was already stated by Segendorf and Wireman’s (2015) in their report about the retail payment market. Hence, it is possible to conclude that a fundamental requirement of a retail payment service is that it has to be secure.

The other trends presented in table 5.1 was not equally coherent as those presented above. In order to understand what the most important trends are and which has the largest impact on the retail payment market, two experts with good insight in the payment market were consulted. After a discussion about the result with two insightful people, the following are the trends that affect the market to the largest extent.

Merchants are pushing EU to regulate to their favour

A couple of incumbent actors express a concern over merchants’ power to push EU to regulate in their favour, which implies lowering the entrance barrier for new actors which will give merchants more alternatives. On the one hand, a lot of interviewees are talking about that the regulators have what is best for customers in mind when they are writing laws. For instance, merchants are able to influence EU by using the argument that their suggestion will be good for the merchants and then customers will benefit from lower prices. On the other hand, representatives from the incumbent actors do not see that lower prices for merchants will result in lower price for consumers. So, whether lower prices on payments are good for the consumers are incoherent.

Get access to the information created when conducting payments

The interviewees are continuously talking about the opportunities with the big data a payment initiator can collect. However, the legal expert sees restrictions in how a bank can use big data due to bank secrecy. Nevertheless, some have pointed out that the big data banks possess today are valuable and actors who enter the payment market might be after the customer’s data. A report by Insight Intelligence (2014) show that 28% of the Swedish population is not using digital payments since they do not feel that the method is safe. If customers feel that leaving their purchase data to a third party actor is not safe they will not do so.
**Incumbent banks are having a hard time adopting to new changes**

Capgemini states in their report about the retail banking market that only 12.9 % of banking executives believe their digital system can handle the change ahead (Capgemini, 2016). This is supported by the interviewed experts who says that banks are locked in their old systems. Furthermore, the interviewed challengers believe their competitive advantage against the banks is their ability to cope with change, which according to numerous researchers is a dynamic capability (Eisenhardt & Martin, 2000; Kogut & Zander, 1992; Teece et al., 1997).

One expert mentioned that the incumbent actors have a long history of collaboration and that they might find it hard to start something outside the collaboration. Furthermore, the incumbents mention that one of their disadvantages is their sticky internal processes. Omarini (2011) states that retail banks have to pay major attention to their business processes and that they have to be flexible and responsive to change. Furthermore, Eisenhardt and Martin (2000) explains that businesses in high velocity markets need to rely on the creation of situation-specific knowledge in the context of simple boundaries and priority-setting rules in order to be responsive. The fact that the Swedish payment market is a high velocity market is strengthened by Arvidsson’s (2009) research.

**Technical solutions that enables more actors to create payment solutions with global coverage**

XS2A is EU’s initiative to enable TPPs to access customer bank accounts. However, both the legal expert and other interviewees say that the technical standard for how this will be possible is not yet developed or determined. The goal is to enable financial actors who fulfil the requirements to become a financial institute to initiate payments on the bank’s account infrastructure (European Commission, 2016). A few interviewees raised their concern about how this technical standard is supposed to be implemented since there is a risk that each country develop their own standard for XS2A. Katz and Shapiro (1993) argue that if a market are characterized by economies of scale, customers will benefit from high compatibility since it gives them more alternatives. The technical standard for XS2A will therefore determine how the competition will look like.

**Actors without payments as core business enter the market**

Many interviewees see actors like Apple, Facebook, Google and H&M as plausible new entrances on the retail payment market. None of the companies mentioned have payments as their core business, nevertheless, they are frequently mentioned as potential entrances. Apple have already developed a solution to initiate payments even though it has not yet been launched in Sweden, Facebook have as well tried a solution comparable to Swish. If payments can be seamlessly integrated with our shopping experience and phones, it becomes more likely that the customer receives additional value. This is also confirmed in Segendorf and Wretman’s report about the retail payment market. New actors have the possibility to enter the retail payment market because even non payment actors can initiate payments. This
can be seen in the light of Barney (1991) who states that for a competitive advantage to be sustainable it should be imperfectly imitable, which not will be the case in the payment initiation service anymore.

**PSD2**

The new PSD2 legislation is seen by many actors as something that will change the rules of the game, where the opening of the bank’s infrastructure by XS2A is the main outtake. PSD2 will according to the majority of the respondents go into effect in January 2018. The legal expert sees PSD2 as a natural step in EU’s overall goal to facilitate free trade of goods among EU members. Many interviewees say that PSD2 will increase the competition, meanwhile other see the opposite and believe that more regulations will not invite any new players to the market. As Segendorf and Wretman (2015) says, a poorly designed regulation will stifle innovation. However, if the PD2 regulation are well designed or is incoherent among the interviewees. When the dynamic of the market change, the relations among actors will change as well, because one should build relationships based on what capabilities one posses, if they are changed, the nature of the relationships will look different (Bengtsson & Kock, 1999). Building relationships will be easier and more vital. With a new legislation that changes the rules of who can or cannot initiate payments, the competitive advantages players in the retail payment market posses will change as well Porter (1985).

One incumbent actor expressed that they do not want competition from challengers and if they could, they rather forbid the whole phenomena. Such a statement is an example of how the incumbent actors would prefer to act. However, considering the reality where the incumbent actors cannot block out challengers they embrace PSD2 since it at least burdens challengers with regulation. The challengers on the other hand sees the part in PSD2 where they get access to the bank account infrastructure as an opportunity.

The interviewed merchant expressed a concern that the incumbent actors will emphasize a potential security risk by letting TTP to access their account infrastructure. They seemed to be right since the incumbent interviewees did express a concern over security issues with TPps. The interviewed regulator sees a possibility for the banks and a threat for the challengers. If the banks deny TTP access to their infrastructure until PSD2 is implemented there will be hard for them to survive. Therefore, the PSD2 legislation is a necessity in order for TPPs to survive.

**6.2 Dichotomy**

A discussion was held to determine which trends that would have the strongest impact and simultaneously have two distinctive way of development. The experts were tasked with assessing two of the trends in table 4.2 that could develop into two distinct different ways. Determining these uncertainties is step three in Shoemakers scenario planning model.

Firstly, the expert thought that the technical solution for allowing TPps XS2A can either be easy to use or complicated. If it becomes complicated to use, the standard requires considerable resources and there will be beneficial to initiate payments in a large scale in order to allocate the compliant costs over a large
amount of payments. On the other hand, if it becomes less complicated to use XS2A the benefits of initiate payments in a large scale will be insignificant. Consequently, the development of the technical standard will determine whether the retail payment market is characterized by economies of scale or not.

Secondly, whether it is possible to benefit from the information gathered about the payees and include the payment initiation in the shopping experience, actors that does not have payment as core business can see a value to enter the market. On the other hand, if it is not possible to collect information from customers and actors with payment as core business provides better experience for the payees. Then, the entrance of actors without payment as core business will be absent in the retail payment market.

6.3 RQ1 How can the dynamic among actors in the retail payment market develop in the future?

The merchant mentioned large volumes as an important advantage in order to have power in negotiations. The experts also emphasized the importance of large volumes in markets categorized with economies of scale, since large volumes enables actors to disperse fixed cost. Katz & Shapiro (1993) explains that a large amount of customers is beneficial when aiming for network effect. However, when interoperability between different payment initiation services is high, consumers are able to mix and match among services. Hence, reduce the benefits gained from a large customer base (Katz & Shapiro, 1993).

One challenger explained that trust becomes easier to obtain with PSD2 implemented. New entrances on the retail payment market are able to obtain sufficient trust from becoming compliant with the legislation. The incumbent banks competitive advantage of trust will then become less rare among the firms on the retail payment market. This corresponds well with Barney’s (1991) explanation that in order for a competitive advantage to be sustainable it has to be both rare among competitors and imperfectly imitable. According to a challenger will neither of Barney’s criteria’s be fulfilled, hence not sustainable. Furthermore, a legal expert stated that payment institution providers will receive access to bank account infrastructure without having to pay for it because of PSD2. It inclines lower fixed costs for payment initiation providers and therefore a decreased need for large volumes to disperse costs. It means that the incumbent banks statement that their large volumes are a competitive advantage will no longer be valuable, which is the first criteria in Barney’s (1991) checklist. In addition, as Sunder et. Al (1993) mention a firm have to reinvest in order to sustain their competitive advantages.
Four scenarios

Based on the two identified uncertainties found in previous section, four different scenarios have been created. These four scenarios are the extreme outcomes of the two uncertainties. Hence, the market can develop into any of the following scenarios, it is illustrated in figure 6.1.

1. Not payment as core business and high economies of scale

In this scenario PSD2 has gone into effect, and TPPs are allowed to access banks infrastructure through XS2A. However, EU did not succeed with their objective to lower the entrance barrier to the retail payment market. That is because the new regulation gave small businesses a hard and expensive time being compliant just as the interviewed regulator and legal expert was concerned about. Therefore, it requires that you are a big company in order to scatter the fixed compliance cost over big volumes.

The interoperability is low, which means that one payment initiation service will not be compatible with the other, therefore, the retail payment market is in this scenario characterised by network effects, which further increase the importance of having great volumes. Customers do not want different payment solutions for different occasion, they prefer rather to have one payment method that works everywhere. That is also a reason why small and niched payment initiation services will have problems.

Companies such as Apple and Google can create payment services as an additional value to their existing products and services. Because these companies see payment services as a value adding service to their existing offering, they will not have the same interest in making profitable payment solutions as actors who have payment as their core business.
The old bank oligopoly is gone, however, a new one is created where huge IT companies dominate this market. The winner is the one that has the best network effect and total customer solution.

The information about the payee and his/her transactions are valuable information which can be used by those who can handle big data. Just like many interviewees mentioned, Apple, Facebook and Google are likely entrances on the payment market. Google and Facebook’s revenues comes from ads, and getting the customers purchase data is attractive in order to personalize the ads. Therefore, they will have quite an incentive to enter this market regardless of the barrier. Apple on the other hand will have good prerequisites due to their large platform. As pointed out during the interviews, the innovativeness of the incumbent actors is not the greatest. Since Apple and Google already have a large network of mobile phones with hardware and software they will have a lower barrier to enter the market. Even though the technical standard for XS2A are complicated there will be large IT companies ready to tackle this barrier. The burden of being compliant with regulations will be handled as well. That is possible due to their size and therefor will smaller companies with less resources have a harder time entering the market under this circumstances.

2 - Not payment as core business and low economies of scale

PSD2 have been implemented according the the wish of the merchants. The market is open, and TPP’s can access the bank account infrastructure through XS2A. The technical standard allowing TPP’s connecting to the bank accounts is simple. Being compliant with PSD2 is not an expensive burden, the regulations is rather simple and encourage companies to start their own payment services. Due to the low cost of being compliant there will be low overhead costs and no need for greater volumes in order to obtain a profitable payment service.

High competition has made transactions less profitable, but also the cost of making a transaction lower, therefore is conducting payments seen as an additional service to an already existing offer. For instance, a retailer who is interested in making the purchase experience as smooth as possible and collecting information about the customer can see a value in offering their customer a payment service.

In this scenario, there will be plenty of choices for the customer, but since the interoperability is high there will be no winnings in using a service that have many users because all services are compatible with each other, hence the need for great volume is low.

Those who enter the payment market in this scenario are smaller players. As one interviewee expressed in an interview, companies active in e-commerce today are potential entrances.

According to Håkansson and Ford (2002) there are paradoxes in engaging in a business network, one of the paradoxes is that companies can obtain competitive advantages by engaging in business networks, on the other hand, many relations and dependability makes it harder to change. With PSD2 and XS2A does the theories by Håkansson and Ford not apply, since it will be possible for TPPs to create network effects
with banks without having a formal relationship and therefore only achieve the advantages and not become slow due to a dependency of the banks.

Since not all players have payments as their core business in this scenario, the information gathered from their customers is important. They can easily conduct payments cross border within EU because every country has the same technical standard regarding accessing the bank infrastructure.

3 - Payment as core business and high economies of scale

In this scenario PSD2 go into effect but the developed technical standards put high demands on actors within retail payment and it becomes expensive and complicated to be compliant. An example is that every member in EU have developed their own technical standard, which makes it for instance, impossible for a Danish payment initiator to initiate a payment from a Swedish account without adopting to the Swedish standard as well. This makes EU’s initiative to decrease the entrance barrier to the market a failure. Additionally, consumers are unwilling to accept the use of their payment information outside the actual transaction which makes it hard to find profitable business models that do not rely on transaction costs. Furthermore, the incumbents are able to prevent challengers from growing during the interphase to PSD2’s implementation. This is done by making it as inconvenient as possible for challengers to access consumer accounts, hence, making it less attractive to initiate a payment on the bank’s infrastructure.

The interoperability between different payment services on the market is low, which makes it characterized by network effects. This increases the importance of being a large actor in order to obtain network effects.

The oligopoly of the incumbents remains strong. However, the incumbent banks have realized the strength of smaller firms’ capacity to develop attractive and innovative solutions. Hence, the incumbent banks and challengers start to form cooperative relationships, where both the incumbents and the challenger’s competitive advantages are utilized. However, the cooperative relationship among challengers and banks become dominated by the banks since they are the strongest part, unfortunately this makes the relationship less innovative.

Being compliant with the legislation is not a bed of roses. The incumbent actors possess a good position to handle the burden of regulations, they will therefore remain strong. In addition, the technical solution for XS2A are unique for each EU member and therefore is the interoperability low, for instance, a financial institution in Denmark are not able to initiate a payment on a Swedish account without adapting to the technical solution Sweden have chosen for XS2A.

A lot if interviewees see partnership as the future for incumbent actors. That bank executive see partnership as the future is further stated in Capgemini’s report on world retail banking. Since the incumbent actors will remain strong they have control over the network of partnerships. Hence, it will
correspond with what Håkansson & Ford (2002) mention as a paradox, the network will be inefficient if one actor have too much influence in the network. If the incumbent actors control the others they cannot contribute and when the purpose of partners is to increase the innovation rate it becomes the opposite.

As the research by Arvidsson (2013) points out, people are ruled by their emotion when it comes to how people prefer to pay, banks have a history of trust which is something people require of someone who having access to their money (Segendorf and Wretman, 2015). The trust for new actors are easily removed, one interviewee said that one scandal can make people questioning the whole industry. Hence, in this scenario have one or few actors been involved in a scandal that harmed the image of the whole industry.

Sweden interpret PSD2 as it is written and implement it into law in January 2018, which is the opinion of most interviewees. However, the important development of technical standards that are mentioned by a few incumbents becomes an issue. The incumbent banks succeed in convincing regulatory institutions that low security requirements on TPPs could harm consumers and increase the risk for fraud. Hence, the developed technical standards become highly detailed in order to prohibit dishonest actors to enter the market.

To reach compliance the actors have to invest large amount of resources. The large incumbent actors in the market becomes the only ones able to utilize these new business opportunities, where the main one is access to account.

Additionally, the issue about personal integrity mentioned by a regulator becomes a reality. The consumer do not allow companies to use their information outside the initiation of the payment. This leads to a difficult situation where challengers does not find any profitable revenue streams for their services. However, the incumbent banks mention in the interview study that they see opportunities to build partnerships with challengers. In this scenario the incumbent banks have realized the importance of utilizing the challenger's ability to innovate. Bengtsson & Kock (1999) explains that a cooperative relationship is beneficial when a company lack some competences. Since the incumbents lack the challenger's ability to innovate and to respond to new consumer needs a cooperative relationship enables the incumbents to obtain the missing advantage.
4 - Payment as core business and low economies of scale

In this scenario PSD2 has been implemented according to the plan and there is many actors competing in the retail payment market. Both banks and nonbanks competing over the same customers. Because XS2A allows TPPs’ to initiate payments on the banks’ account infrastructure there is no competitive advantage being a bank.

Nevertheless, banks and other companies with specialization in payments will lead the payment market because of their specialization of making good payment services.

The customer needs are satisfied due to the high competition and many niched payment solutions. The XS2A will make it easier to try new payment initiation services due to the fact that the consumer does not have to change account holding bank to try a new service.

In this scenario, the winner will be the one that offer the best payment solution with the most convenient way to pay.

Since the incumbent actors are having a hard time to cope with the changes and providing their customers with the payment methods they are requesting, an unserved customer need occurs and new and smaller companies enters the payment market.

The initiative from EU to lower the entrance barrier to the retail payment market have succeeded. Hence, EU and other regulative institutions remains a strong driving force in the development of the retail payment market as mentioned by the majority of interviewees.

The technical standard allowing TPPs access to account is implemented and technical standards are easy to be compliant with, therefore a lot of new actors enter the retail payment market.

In a high velocity markets favourable characteristics of dynamic capabilities are simple, experiential and iterative processes. The fact that the Swedish payment market is a high velocity market is strengthened by Arvidsson’s (2009) research. The incumbents mention that one of their disadvantages is their sticky internal processes. If the incumbents have survived in this scenario it implies they have transformed their processes to become more flexible, which enables them to quickly seize new opportunities.
7 Discussion & Conclusion

This chapter presents a discussion about the result and the conclusion of the analysis. The discussion contains our own views and reflection regarding insights from the study. This section brings up important issues and remarks the reader need to know about in order to be able to utilize the full potential of the study.

7.1 Discussion

An important issue that has to be taken into consideration when reading this thesis is the generalization of the different categories of interviewees. We chose to cluster together all the banks in one cluster, but it could be argued that the banks have totally different business models. It means that each bank has different competitive advantages and hence will be affected by the scenario in different ways. This simplification can create problem if the reader is not aware of the limitations of the results. However, in order to paint the broad picture of how the retail payment market may develop we saw it as a reasonable compromise to cluster them into one category.

As one incumbent mentioned, the issue about how the risk should be allocated between the different actors has to be discussed further. According to the PSD2 legislation the responsibility towards the customer will lay on the banks, even when it is a TPP that have initiated the payment. This is not appreciated by the banks and they believe it is something that has to change. If it becomes a reality that the distribution of risk becomes a big disadvantage for the banks, regulators will be able to adjust this in PSD3 in order to even it out (PSD3 is the planned successor to PSD2).

A frequently mentioned phenomenon during the interview study was block chain technology. It is believed to have the possibility to change the whole financial system and make it a lot more secure. However, the actual knowledge about how this technology works and what it may incline was not known by any of the interviewees. Due to the lack of information about block chain, we choose to disregard it in the analysis because it would consist of too many guesses and assumptions. However, the possible benefits of the technology are something that many actors are looking forward to and some have scouts out to ensure that they do not miss out if this technology starts to make its way into the retail payment market.

The scenarios derived from this study should be seen as possible outcomes, rather than indications on what direction the market dynamic will move towards. It means that if the developments of the identified critical trends change in the direction of one of the scenarios, that specific scenario becomes the most extreme outcome if the development continues. However, as earlier mentioned regulators will most likely continue to regulate the market as the effect of current regulations becomes visible. If the outcome of previous regulations deviates from the desired state of the retail payment market, further fine tuning will
be made. However, knowing what the extreme scenario for a certain development may look like could help a company to prepare an action plan in order to reduce unwanted effects if the market takes an undesirable change of direction. Furthermore, this study could also help a company to prepare for a scenario where they would benefit. If an actor's preferred scenario become a reality they will benefit from having an action plan in the pipeline in order to fully utilize the benefits from the situation.

7.2 Conclusion

RQ1.1 What are the most critical trends in the payment market?

The idea that legislations, customer demand and technical development are the areas which contains the strongest trends in the payment market could be confirmed as accurate by our thorough interview study. Regarding customer demand, it is clear that convenience is important because almost every interviewee speaks of it. Hence, the technological development is focusing on fulfilling the customer demand of convenience. When a new technical solution occurs that customers asks for, a business opportunity arise. Since the incumbent banks have been slow at picking up these business opportunities, other companies have seen the potential and taken advantage of the incumbent banks poor ability to adopt.

This has lead to an emergence of a new fintech sector that has been able to act on a relatively unregulated market. Authorities has seen a need to regulate the new payment market, which is the reason why we have seen regulations such as PSD and PSD2. Our interviewees agree that increased competitiveness is the purpose of new legislations. Apparently, legislators see the new fintech trend as something that encourage competition and therefore wants to legislate to their favour. Another factor that has driven the legislations in favour for the fintech sector is that the merchants have lobbied for regulations that creates alternative to the oligopoly possessed by the incumbent actors on the payment market.

It is hard to predict the future in a market characterized by high velocity, hence, understanding what trends affecting the market is important. This study has found several trends to be important for the development of the retail payment market.

- Merchants are pushing EU to regulate to their favour
- Access to the information created when conducting payments
- Incumbent banks have a hard time adopting to new changes
- Technical solutions that enables more actors to create payment solutions with global coverage
- New actors without payments as core business enter the market
- PSD2

RQ1 How can the dynamics among actors in the retail payment market develop in the future?

Nevertheless, two of these trends can develop in two distinct ways which will determine the future of the retail payment market. Either do the burden of being compliant with the legislation increase so much that it becomes hard to fulfil all requirements, or the new regulation will increase the rate of innovation and we
will see a lot of new players on the retail payment market. Who will initiate payments in the future is an uncertainty, the interviewees have given different answers. Either will companies with payment as their core business initiate payment or companies with payment as an additional service to their already existing offering initiate payments.

Crossing the extreme outcomes gives for scenarios of how the market can look like when the retail payment market evolves in either direction. Hence, there are four scenarios describing the future. The characteristics of each scenario can be seen in figure 7.1.

Figure 7.1 – Characteristics of each scenario
8 Implications

In this chapter, implications will be discussed in the context of sustainability. Additionally, suggestions of possible subjects of future research that have been detected during the study will be presented.

8.1 Sustainability

Due to the fact that this study does not involve any suggestions to how an actor should or should not act in regards to different future scenarios of the retail payment market, the direct implications of the study is low. The study mainly explains how different developments may impact actors within the retail payment market and how the dynamic may change. However, the study can potentially influence how actors within the industry perceive their own future within the market, hence, have some implications in regards to sustainability. The implications of this study in regards to sustainability is discussed in terms of economical, social and environmental implications.

In regards to economical aspect, will the possible outtaktes from this study mainly have positive implications on the market. Due to the explanatory purpose of the study it will help to create an understanding of how the market is functioning and give individuals with interests in the retail payment market better grounds for their decisions. Additionally, when actors within the market better understand how different outcomes may change the course of the markets development, they will be able to allocate resources in a more efficient way. Furthermore, the study can also help customer to understand their role in the value chain and give individuals that want to influence the development of the market information to do so.

The social implications of the study are in regards to the increased knowledge it can give to the public eye. By highlighting the fundamental trends in the market and what different developments may incline, the general public gets the possibility to take an active decision on how they want the retail payment market to progress. Due to the fact that it is the consumer who decides on what solution that is the best one by using it, they are able to influence the development of the market. Hence, can this study help the society to collectively decide on how they want the future to look like.

From an environmental perspective can the implications of the study be an increased awareness of which actors that have the best potential to create a more efficient market. For example, could new innovative services that optimise the way money is transferred increase our resource efficiency. It would mean that those resources that are freed can be allocated where they are needed more. Hence, reduce the environmental footprint of today's payments.
8.2 Future research
The study shows that a plausible future scenario is a retail payment market where challengers and incumbent banks go into different kinds of relationships. Bengtsson and Kock (1999) present different types of relationships used in the business world and explains how they benefit different parties in it. However, an interesting research would be to investigate how these relationships between banks and challengers could look like and which type of Bengtsson and Kock’s categorization of relationships that would benefit them the most.
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